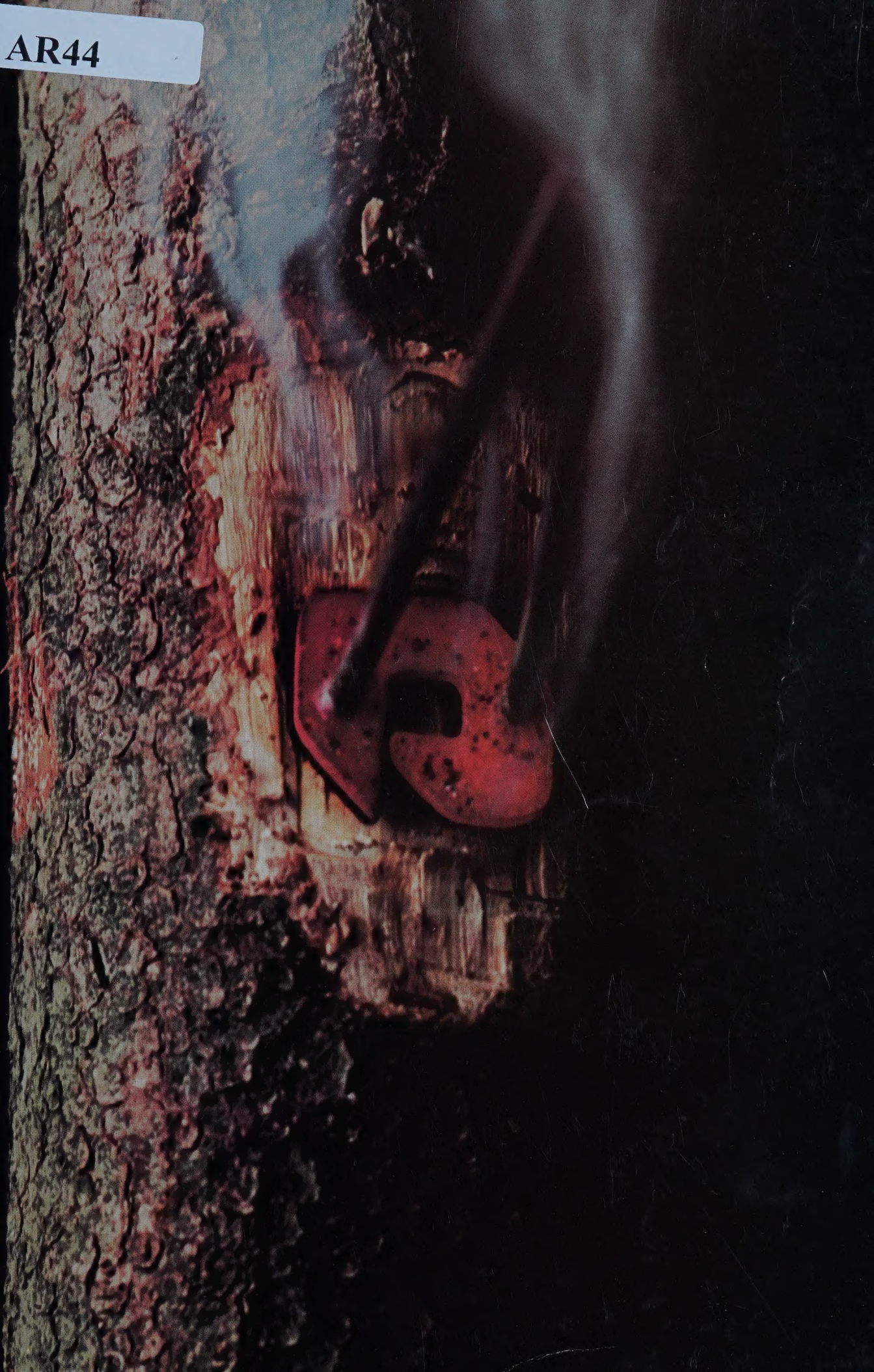


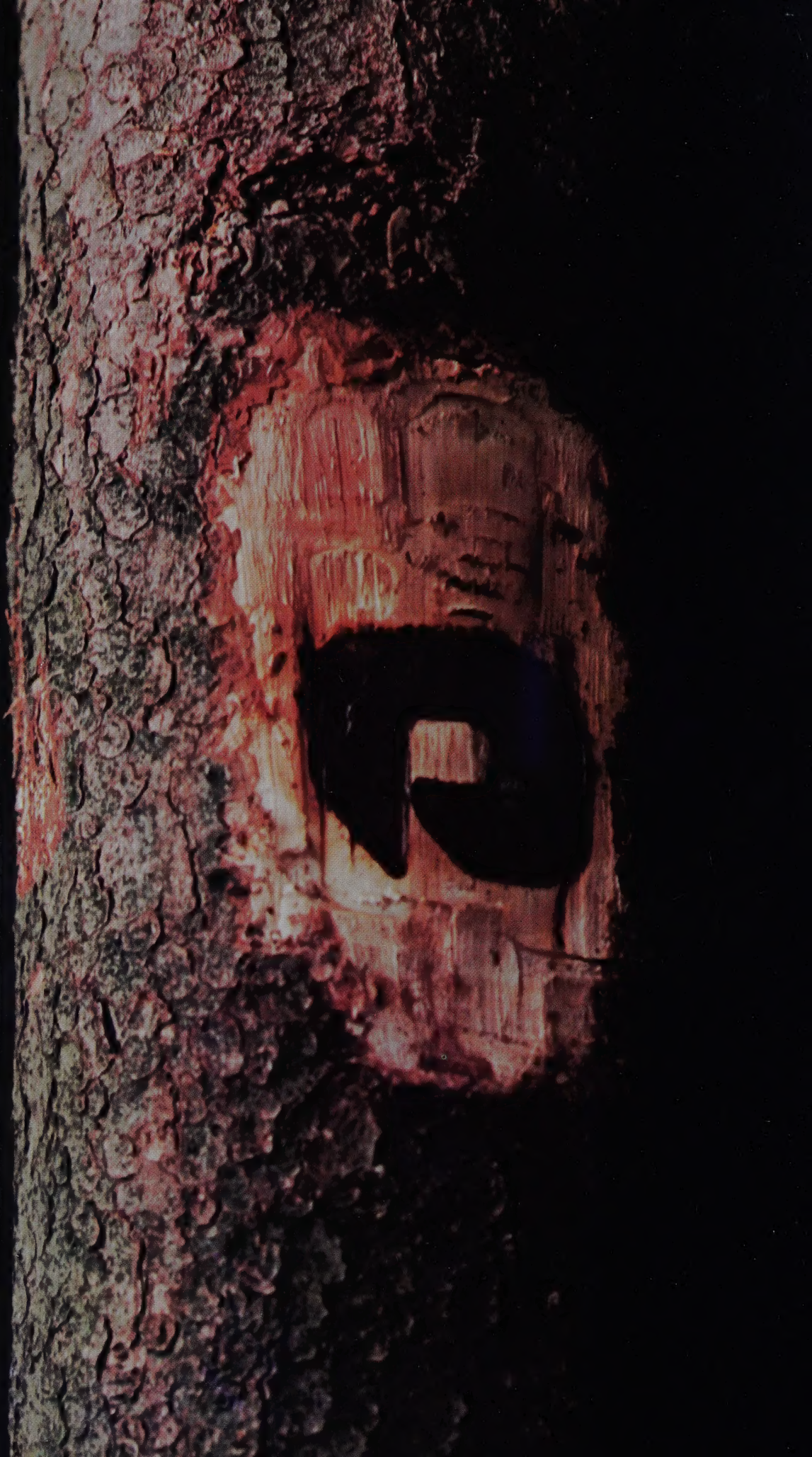
**REED
PAPER
LTD.
ANNUAL
REPORT
1974**

AR44



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DIRECTORS

Robert W. Billingsley,
President and
Chief Executive Officer.

H. Wilfrid Broad,
Deputy Chairman,
Reed International Limited.

John R. Craig,
Chairman of the Board.

Kenneth S. Howard, Q.C.,
Partner, Ogilvy, Cope,
Porteous, Montgomery,
Renault, Clarke & Kirkpatrick,
Barristers and Solicitors.

Alexander A. Jarratt,
Chairman and Chief Executive,
Reed International Limited.

John A. Mullin, Q.C.,
Partner,
Fraser & Beatty,
Barristers and Solicitors.

John A. Ross,
Vice-President, Finance.

Renault St. Laurent, Q.C.,
Partner,
St. Laurent, Monast, Desmeules,
Walters & Valliers,
Barristers and Solicitors.

Ernest J. Spence,
Chairman of the Board,
Signet Food Systems, Inc.

OFFICERS

Chairman of the Board,
John R. Craig.

Vice-Chairman of the Board,
Alexander A. Jarratt.

President and
Chief Executive Officer,
Robert W. Billingsley.

Vice-President,
Thomas S. Jones.

Vice-President,
Law and General Counsel,
James W. S. McOuat, Q.C.

Vice-President, Finance,
John A. Ross.

Group Vice-President, Technical,
Raoul C. Buser.

Group Vice-President,
Pulp and Paper,
Stewart G. Gordon.

Group Vice-President,
Forestry and Wood Products,
Kenneth D. Greaves.

Group Vice-President,
Linerboard and Pigments,
Roger J. Short.

Group Vice-President,
Decorative Products,
Thomas R. Swanston.

Group Vice-President, Packaging,
Eric R. Zukowski.

Secretary,
Sara S. Hultgreen.

Treasurer,
Nicholas Davy.

Controller,
Earl F. Beyers.

Assistant Treasurer,
William D. King.

Assistant Secretary
A. Carol Hutton.

REGISTRARS AND TRANSFER AGENTS

Canada Permanent Trust Company.
Le Trust Général du Canada.

AUDITORS

Peat, Marwick, Mitchell & Co.

ANNUAL GENERAL MEETING

The Annual General Meeting
of Shareholders will be held in the
British Columbia Room
of the Royal York Hotel,
Toronto, Ontario at 11:00 a.m.
on Tuesday, May 27, 1975.

MAJORITY SHAREHOLDER

100% of the common shares of
Reed Paper Ltd. are held by Reed
Paper Holdings Ltd., a subsidiary
of Reed International Limited, of
London, England. These shares
constitute 86.3% of the voting
shares outstanding.

Si vous aimez recevoir un exem-
plaire de ce rapport en français,
veuillez communiquer avec le
Service de publicité et relations
publiques, Les Papiers Reed Ltée,
145 King St. West, Toronto,
Ontario M5H 1J8.

TO THE SHAREHOLDERS

For Reed Paper Ltd., 1974 was a year of consolidation, change, accomplishment and growth.

One of our most important objectives in 1974 was the simplification of Reed's legal corporate structure.

Anglo-Canadian Pulp and Paper Mills, Limited became a wholly owned subsidiary as the result of a share exchange offer, in which holders of Anglo shares exchanged them for preferred shares of Reed. Reed preferred shares were listed for trading on the Montreal and Toronto stock exchanges in October of 1974. In addition, during the year we consolidated 22 smaller wholly owned subsidiaries.

In 1974, we began the reorganization of the Company's operations into six major product groups: Pulp and Paper, Forestry and Wood Products, Packaging, Technical, Linerboard and Pigments and Decorative Products. Each of these is headed by a Group Vice-President who

has profit centre responsibility for his area. A review of the 1974 performance and 1975 outlook for each group begins on page 13.

During 1974 we substantially completed the establishment of a high calibre corporate staff to provide specialized expertise to our operating groups. We also began the installation of financial and information systems that, when completed, will provide better controls and enable us to react to internal and external changes more quickly.

Earnings in 1974 were excellent, totalling \$36,447,000 on sales of \$303,201,000 compared to 1973 earnings of \$19,532,000 on sales of \$217,568,000. Throughout the first three quarters, demand for most products held strong, but signs of market softening began to appear in the last quarter.

We continue to be interested in the acquisition of businesses that can be integrated successfully into our existing activities, that show growth potential, and to which we can bring management expertise. Fields of primary interest are secondary manufacturing and marketing related to our forest product activities, and businesses in the decorative products area. Recent acquisitions are discussed in the Financial Review.

During 1974, two year contracts were signed with union employees at our Toronto wall-covering and corrugated operations. In January of 1975, we reached a two year agreement with cutters on our Dryden woodlands operations that will mean an average annual increase in wages and benefits of approximately 25%. This agreement follows the pattern set by the rest of the Ontario pulp and paper industry.

In September Reed, in line with other Eastern Canadian pulp and paper producers, granted union employees at the Dryden and Quebec operations an inflation adjustment of 25¢ an hour. During the last quarter, we granted a cost of living increase effective January 1, 1975. This increase is adjusted quarterly and will amount to an average increase of 13¢ per hour in the first quarter for workers at our Dryden and Quebec mills.

1975 will be a difficult year for labour relations. The general labour atmosphere in Canada is militant, and this is further complicated by political rivalries and

disputes that have resulted in fragmentation of authority and responsibility within a number of unions. A year of rampant inflation has raised worker expectations and a number of our contracts will expire in the midst of a pronounced market downturn. In view of these factors, we feel it is unlikely that the Canadian pulp and paper industry will complete 1975 without major strikes.

We have developed a skills inventory programme that will enable the best utilization of talents and development of potential of all salaried employees. This plan will be put into effect in 1975.

Reed is committed to developing and rewarding talent without regard to race, colour, sex, religion, age, marital status or national origin. We have implemented an affirmative action programme to ensure adherence to this policy throughout the Company.

In February of 1974 Dr. Philip H. Sykes retired and resigned as a Director. Dr. Sykes has given invaluable counsel to Reed and his advice and assistance, particularly in technical and engineering matters, will be deeply missed.

The Board accepted the resignation of Sir Don Ryder as Director and Vice-Chairman of the Company as of December 5, 1974. Sir Don has left private industry to take up a post as a special advisor to the British Government. Sir Don is a man of great energy and business acumen who has made an enormous contribution to the growth and development of Reed Paper. Our accomplishments and achievements are a tribute to his far-sighted vision and continued support.

In March of 1975, Mr. Alex Jarratt, Chairman and Chief Executive Officer of Reed International Limited, London, was appointed Vice-Chairman and Director of Reed Paper Ltd., to fill the vacancy left by Sir Don.

The size of the Board of Directors was decreased from ten to nine at the Annual General Meeting of the Company in August of 1974.

By the beginning of 1975, we had virtually completed the formation of Reed Paper's senior management team. During 1974, S. G. Gordon was elected Group Vice-President, Pulp and Paper, K. D. Greaves was elected Group Vice-President, Forestry and Wood Products, T. R. Swanston was elected Group Vice-President, Decorative Products and R. C. Buser was elected Group Vice-President, Technical. In February of 1975, E. R. Zukowski was elected Group Vice-President, Packaging and in April our group organization was completed with the election of R. J. Short as Group Vice-President, Linerboard and Pigments.

J. W. S. McOuat was elected Vice-President, Law and General Counsel in December of 1974.

N. Davy was appointed Treasurer, W. D. King was appointed Assistant Treasurer and E. F. Beyers was appointed Controller. In April of this year Miss A. C. Hutton was appointed Assistant Secretary.



R. W. Billingsley, President and Chief Executive Officer, holds a B.Sc. in Economics from the Wharton School of Commerce and Finance, University of Pennsylvania. Before joining the Company in 1972 he worked for Hooker Chemical Corporation, Electric Reduction Company of Canada and Shell Canada Limited.

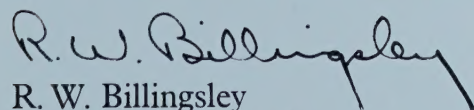
OUTLOOK

Demand for pulp and paper products is expected to be soft throughout 1975. This drop has already resulted in manufacturers taking downtime rather than building inventories or attempting to expand sales by cutting prices. Depending upon the duration and degree of the market downturn, pulp and paper producers will probably take additional downtime in sulphite pulp, fine and kraft papers, paperboard, newsprint and even kraft pulp.

Indications are that lumber markets will see a gradual recovery throughout 1975 following an acceleration in new housing starts. Decorative Products will face a challenging year as management implements extensive changes and, at the same time, copes with depressed market conditions. By the end of the year, however, this group will be well on its way to becoming a major contributor to earnings.

In view of these market difficulties, 1975 will be a challenging and uncertain year for Reed, however, we remain committed to our long range growth objectives and convinced that the goals we have set for Reed are realistic and achievable.

In closing, I would like to voice a special thanks to our shareholders and employees who have given us their continued and loyal support, and without whom the achievements of 1974 would not have been possible.

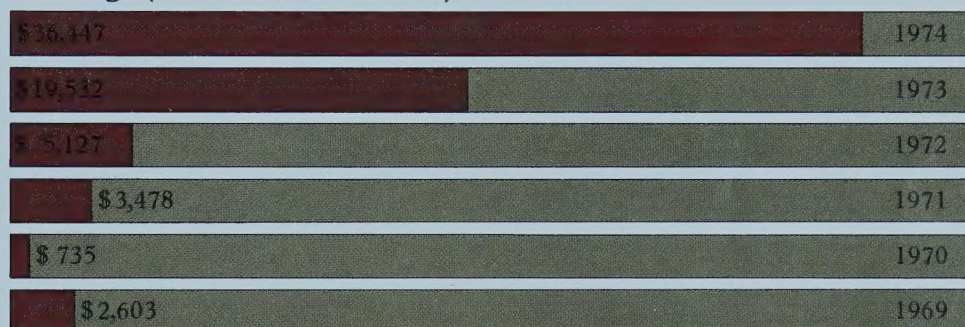


R. W. Billingsley
President and Chief
Executive Officer
Toronto, Ontario
April 30, 1975.

Sales (thousands of dollars)



Earnings (thousands of dollars)





J. A. Ross, F.C.A., Vice-President, Finance. A graduate of McGill and formerly Vice-President, Finance and Treasurer, Shell Canada Limited, he joined Reed in 1973.

FINANCIAL REVIEW

In 1974 sales amounted to \$303,201,000 in contrast to \$217,568,000 in 1973. The volume of major products sold was much the same as in 1973 as facilities were pushed to the limit in both years. However, market sulphite operations were resumed in 1974 and 62,000 tons produced in contrast to 5,200 in 1973. In addition, substantial volume increases were achieved in converted paper products and wallcoverings. The balance of the increase derives from the substantially higher prices realized on all products. Up to the present, prices continue to hold firm in all segments of the business although demand for product is generally slackening.

The earnings for 1973 have been restated to include the profits of the Sanderson group acquired from Reed Holdings in 1974 and the number of shares taken as outstanding in each year has been based on the capital reorganization which took place in 1974 and which is fully explained in the Notes to the Financial Statements.

Net earnings were \$36,447,000, equivalent to \$5.22 per share, compared to \$19,532,000 or \$2.84 per share in 1973. A supplementary statement designed to show the impact of inflation has been inserted in the Report following the normal accounts. In this supplement, the term "historical dollars" means the actual dollars of record in normal reporting practice and "current dollars" are historical dollars adjusted for inflation. The comparison, summarized below, demonstrates that under present circumstances historical dollar reports tend to overstate the true rate of return on investment. The comparison follows:

	Current Dollar Basis		Historical Dollar Basis	
	1974	1973	1974	1973
	(millions of dollars)			
Shareholders Equity	254.4	196.1	166.2	110.9
Net Earnings	38.4	23.5	36.5	19.5
Earnings as a percentage of Equity	15.1	12.0	21.9	17.6

It is apparent from the foregoing why it is difficult to justify expansion capital at current escalating construction costs despite the improvement in reported earnings.

Reed has substantial investments in three companies operating in British Columbia. The operations and financial results of these companies are reported on pages 26 through 28 under the heading "Joint Venture Investments".

Profits of the joint venture companies have been accounted

for on the equity basis of accounting. The details of Reed's share of profits and losses of these companies are shown below:

	1974	1973
	(thousands of dollars)	
Prince George Pulp and Paper	10,535	4,003
Intercontinental	6,028	1,932
Takla Forest Products	(2,289)	638
	14,274	6,573
less: Taxes on Income	6,930	2,819
Reed share of profit before extraordinary item	<u>7,344</u>	<u>3,754</u>

Prince George and Intercontinental have now fully exhausted the tax credits arising from start-up expenses and the depressed market conditions in the early years of their operation. Takla has a continuing balance of losses for tax purposes and this year has experienced new losses as a result of the depressed conditions in the lumber industry.

Dividends on the common shares of Reed amounted to \$7,096,000 in 1975. In the first part of the year, dividends were limited to the amounts received by way of dividends on the investment in Anglo-Canadian Pulp and Paper Mills, Limited. In August, the Directors introduced a policy of quarterly dividends. Pursuant to this policy dividends of 25¢ per share were paid October 10, 1974 and January 1, 1975. In March of 1975, the Directors increased the quarterly dividend per common share to 37½¢. An initial dividend on the new preferred shares, amounting to \$530,000, was paid on January 1, 1975.

During 1974, the following acquisitions were made:

The business of D. D. Dick Engineering Limited – a firm of consulting engineers based in Toronto.

The Gold Crest Products Limited – manufacturers of

furniture and owners of National Drapery Company Limited.

Atlantic & Pacific Barge Transport Limited – owners of the tug and barges that transport pulpwood to the Quebec mill from the limits at Forestville under contract to Anglo-Canadian Pulp and Paper Mills, Limited.

The cost of these acquisitions is detailed in the Notes to the Financial Statements and amounted in total to \$10,755,000.

On March 24, 1975, Alpa Industries Limited was amalgamated with a subsidiary of Reed Paper Ltd. Alpa is a major distributor of lumber and building products, with sales for the fiscal year ending June 30, 1974 of about \$73 million. The Alpa shareholders received redeemable preferred shares, of the amalgamated company. These shares were redeemed immediately following the amalgamation. A special bank credit was arranged to provide funds for this acquisition.

Also, in April of 1975, we purchased substantially all of the assets of the Wallcovering Division of Dwoskin Inc. of Atlanta, Georgia for approximately \$9 million. Dwoskin is a major distributor of wallcoverings in the United States. Sales for the fiscal year

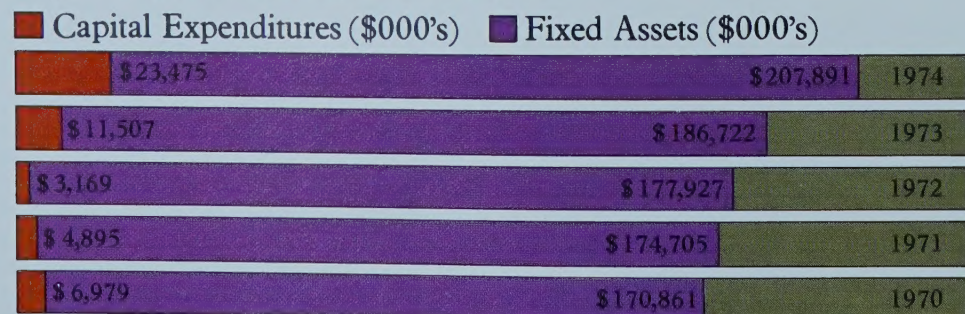
ending June 30, 1974 were approximately \$25 million.

Capital expenditures in 1974 were \$23,475,000, approximately double the amount spent in 1973. About 20% of this relates to the new containerboard mill under construction in Mississauga. The balance relates mainly to projects aimed at improving the efficiency of the mills, as well as replacement and environmental improvement capital.

As has been the case with many companies, inflation has had a drastic impact on the investment in current assets. Accounts receivable and inventory values have increased approximately \$48 million and this has obviously created a substantial strain on corporate resources. Tight control programmes have been instituted to ensure that accounts receivable are maintained in a current position and that inventories are held to a minimum.

During the year a substantial amount of effort went into a programme aimed at simplification of the complex corporate structure of the Reed Paper group of companies. The offer to the minority stockholders of Anglo-Canadian Pulp and Paper Mills, Limited to exchange their common shares for an equal number of Reed Paper Ltd. \$2.00 Cumulative Redeemable Convertible Voting Preferred Shares was an important element of this programme. The offer was most successful, there being only 31,375 Anglo common shares out of a total of 1,093,194 remaining outstanding at the close of the offer on November 27, 1974.

Capital Expenditures and Fixed Assets

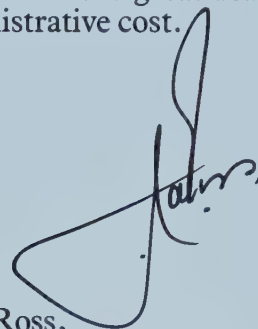


Capital expenditures figure includes only actual fixed assets purchased during the year. Fixed assets total includes fixed assets purchased as well as fixed assets of subsidiary companies acquired where applicable.

These shares were then acquired on January 27, 1975 pursuant to the provisions of Section 145 of the Companies Act (Quebec). Accordingly, Reed Paper Ltd. now owns 100% of the shares of Anglo, and the number of Reed preferred shares outstanding and distributed or available to the former Anglo shareholders is 1,093,194.

Concluding steps in the corporate simplification programme will aim at reduction of corporate entities to a minimum, strengthening the identity of the organization by enabling an increasing proportion of business to be

carried on in the Reed name and elimination of a great deal of administrative cost.



J. A. Ross,
Vice-President, Finance
Toronto, Ontario,
April 30, 1975.

Financial Highlights

	1974	1973	% Change
Sales	\$303,201,000	\$217,568,000	39.3
Earnings before extraordinary items	\$ 34,045,000	\$ 16,588,000	105.2
Net earnings	\$ 36,447,000	\$ 19,532,000	86.6
Per Common Share			
Earnings before extraordinary items	\$ 4.87	\$ 2.41	102.0
Net Earnings	\$ 5.22	\$ 2.84	83.8
Capital Expenditure	\$ 23,475,000	\$ 11,507,000	104.0
Working Capital	\$ 46,406,000	\$ 46,008,000	0.9

Stock Trading Range

	Toronto Stock Exchange			Montreal Stock Exchange		
1974	High	Low	Volume	High	Low	Volume
October	\$19 ³ / ₄	\$17 ³ / ₄	6,500	\$19.0	\$18 ¹ / ₂	350
November	20.0	18 ¹ / ₈	22,900	20.0	20.0	350
December	19 ⁷ / ₈	18 ¹ / ₂	12,200	19 ⁷ / ₈	19 ¹ / ₄	763
1975						
January	21 ⁵ / ₈	18 ³ / ₄	45,900	21 ¹ / ₄	19.0	2,855
February	23.0	21 ³ / ₈	26,300	23.0	22 ¹ / ₂	1,642
March	22 ³ / ₄	20 ¹ / ₂	24,500	22 ¹ / ₄	21 ¹ / ₄	1,100

Reed Paper Ltd. convertible preferred shares were listed for trading on the Toronto and Montreal Stock Exchanges on October 9, 1974.



S. G. Gordon, Group Vice-President, Pulp and Paper joined Reed in 1973. He has worked for Boise Cascade and Williamhouse Regency. He holds a Bachelors Degree in Business Administration from the University of Michigan. Photographed with rolls of kraft converting paper used to make bags.

PULP AND PAPER GROUP

The Pulp and Paper Group is responsible for the manufacturing and marketing of newsprint, kraft and specialty papers, paperboard, sulphite pulp, kraft pulp, lignosulphonate and chlor-alkali chemicals, and turpentine and tall oil products. Stewart Gordon is Group Vice-President, Pulp and Paper.

Our operations are located in Quebec City, Quebec, and Dryden, Ontario. At Quebec we have a newsprint mill, a paperboard machine, a market sulphite pulp mill and a lignosulphonate chemicals plant. We have a kraft pulp mill, a kraft and specialty paper mill and chloralkali, tall oil and turpentine plants in Dryden.

On balance, 1974 was an excellent year for all pulp and paper products. Newsprint sales were \$66,631,000, an increase of \$15,217,000 over 1973. Sales of kraft pulp totalled \$56,826,000, up from \$23,612,000 in 1973. Kraft, specialty envelope paper and paper-board sales were \$33,712,000 compared to \$26,770,000 in 1973.

Throughout the year demand exceeded supply for all pulp and paper products and prices rose accordingly. A large portion of these price increases was eroded by increases in labour, raw material, distribution and operating costs, which rose dramatically during the year.

Production of kraft, specialty and envelope papers at Dryden was 69,344 tons for the year. In the last quarter of 1974 we installed a computer on our number 4 paper machine which will result in improvements in



Located at Reed's Dryden, Ontario mill are production facilities for bleached kraft pulp, kraft and specialty papers, chlorine, caustic soda, sodium chlorate, tall oil and solvent grade turpentine.

production output and quality.

Production in market kraft pulp was 129,121 tons in 1974, a decrease of 10,862 tons from 1973. This production level was disappointing and resulted from labour problems in the last quarter and equipment failures that were the inevitable result of straining facilities to their limit for almost two years.

In 1973, we began an analysis of the world's long term fibre requirements and its implications for our Dryden bleached kraft pulp mill. As a result of this study it became clear that there will be a long term shortage of bleached northern softwood kraft pulp of the type manufactured in Dryden.

Therefore, we have formulated a modernization, expansion, optimization and effluent control programme for our Dryden mill and the concept has been approved by the Board of Directors. This programme would be implemented over a multi-year period and would involve the expenditure of approximately \$216 million. It would expand pulping capacity to 770 tons per day, paper making capacity to 220 tons per day, and sawmilling capacity from 34 million to 225 million board feet per year.

In addition, we are engaged in a study to determine the feasibility of building a second integrated forest products complex in the Red Lake area of Northwestern Ontario. This would include a 1,000 ton per day bleached kraft pulp mill and complementary sawmilling and lumber processing activities. The Province of Ontario has assured us of additional timber limits sufficient to supply this mill.

In 1974 we manufactured 4% more yards of newsprint than in 1973. Having initiated a general industry move to a 30 lb. standard newsprint weight during 1973, in 1974 we concentrated our marketing efforts on even lighter weight papers which consume less fibre. This fibre reduction resulted in a tonnage decrease from 1973 of 6,983 tons. For comparison, 1974 production was 330,927 (30 lb. basis) versus 1973's output of 337,910 (32 lb. basis).

We installed a semi-automated computerized roll-wrapping system on our newsprint operations in 1974 that will result in a better finished product at a lower packaging cost. The capital cost of this project was approximately \$2.3 million.

Worldwide demand for newsprint held firm for most of the year although, as with other products, markets began to weaken in the last quarter of 1974.

The demand for market sulphite pulp was strong during 1974. Our market sulphite pulp mill was restarted in February of 1974 after being shut down due to a fibre shortage and ran at capacity producing 62,446 tons. Paperboard demand also was strong and the mill produced 31,394 tons compared with 29,454 tons in 1973.

In 1974, we initiated an optimization study of the Quebec mill to determine what investment strategy for new products and manufacturing facilities made the most sense in light of this mill's stable long-term fibre supply. The conclusions of this study are very promising and, during 1975, we will be announcing a number of optimization and modernization plans for the Quebec mill.

In September of 1974, union employees at Dryden and Quebec received an adjustment of 25¢ an hour, in line with an industry-wide move to compensate workers for the impact of inflation during the year. On January 1, 1975 these employees received further increases as the result of industry wide cost of living adjustments granted during the last quarter.

In the first quarter, this meant an average increase of 13¢ an hour for workers at our Dryden and Quebec mills.

Our Dryden mill and offices experienced harassment and two illegal walkouts in 1974, one of which resulted in the shutdown of the pulp mill in December. Our contracts with the Quebec mill workers expired April 30, 1975. The contract expiration date for our Dryden mill is January 1, 1976.

By the end of the year, it was obvious that the economic downturn in the United States had affected the North American pulp and paper industry. This was indicated by a drop in order backlogs and a rise in customer inventories.

We have taken downtime in bleached and unbleached papers, newsprint, paperboard and sulphite pulp to ensure that inventories remain at manageable levels. Since most of Dryden's production is committed under long-term contracts, and since bleached Canadian softwood pulp demand continues to be strong, our Dryden operations are to a degree insulated from the overall pulp market. Most of our newsprint is sold under long term contracts and this, coupled with the fact that we have widened our geographic and customer base in the past two years, will to some extent also cushion the impact of a moderate market weakening on

our newsprint operations.

The outlook for the rest of the year is uncertain. We will elect to take downtime in our newsprint and kraft pulp operations if inventory levels appear to be rising too rapidly. The need for shutdowns will be directly related to the timing of the economic recovery in the United States.

However, we feel that the softening in the pulp and paper market is a temporary one, and reflects the overall economic slowdown particularly in the United States. Long term, the industry's capacity to meet demand is inadequate and economic recovery will bring a return to supply/demand balance in 1976.

CHEMICALS

The development, manufacturing and marketing activities for all of Reed's pulp and paper related chemicals are included within the Pulp & Paper Group. Lignosulphonate specialty chemicals are produced utilizing the spent liquor from the sulphite pulping process of our Quebec City mill. At Dryden, we have plants which produce chlorine, caustic, sodium chlorate, and hydrochloric acid. The bulk of these chemicals is used in the bleaching sequence and the kraft pulping process at our Dryden mill, the balance being sold on the open market. In addition, at Dryden we recover and market crude tall oil and pulpmill liquid, both being silvichemical byproducts of the kraft pulping process.

Lignosulphonates are marketed by Reed world-wide. We are a major developer and supplier of these specialty lignin-based chemicals to the construction, petroleum exploration, dyestuff and animal feed industries. Chlorine, caustic and chlorate are produced for use

by the Dryden pulpmill and are sold to other pulp producers in the geographic area.

These Chemical operations had an excellent year in 1974 with sales totalling approximately \$5 million. We anticipate that our chemical activities will maintain their 1974 profit and sales levels

in 1975.

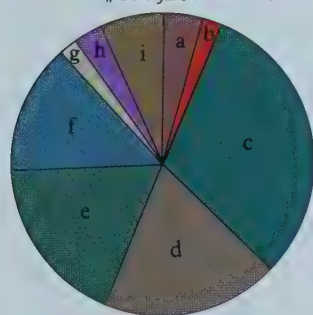
In April of 1975, we began production at our new solvent grade turpentine plant in Dryden. This plant has an annual rated capacity of approximately 400,000 gallons. The output of this plant is sold out for 1975.

Price Ranges: U.S. list prices for Kraft pulp and newsprint, stated in U.S. dollars.

	1974	1973	1972	1971	1970	1969
	high/low	high/low	high/low	high/low	high/low	high/low
Bleached Kraft Pulp	340./265.	235./169.	169./169.	169./169.	169./168.	155./155.
30 lb Newsprint	234.65/213.50	213.50/176.00	176./176.	171./171.	162./162.	157./157.

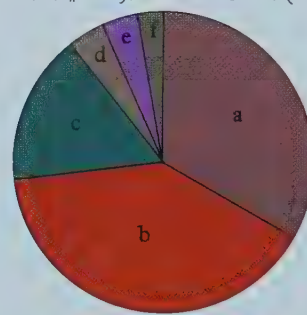
Sales by Market

Canada \$159,265 total Sales (000's)



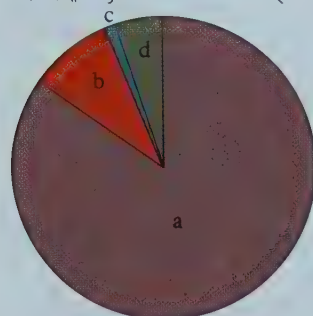
- (a) Newsprint 4%
- (b) Pulp 2%
- (c) Decorative Products 31%
- (d) Paper and Paperboard 19%
- (e) Corrugated Containers 18%
- (f) Bags and other Specialty Products 14%
- (g) Lumber 2%
- (h) Fibre for Recycling 3%
- (i) Chemicals and Sundry 7%

U.S. \$101,338 total Sales (000's)



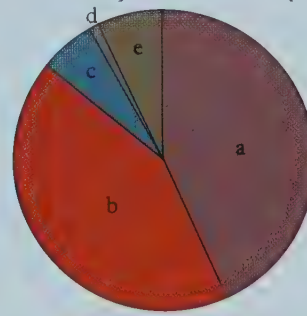
- (a) Newsprint 33%
- (b) Pulp 40%
- (c) Decorative Products 16%
- (d) Paper and Paperboard 4%
- (e) Fibre for Recycling 4%
- (f) Chemicals and Sundry 4%

U.K. \$18,919 total Sales (000's)

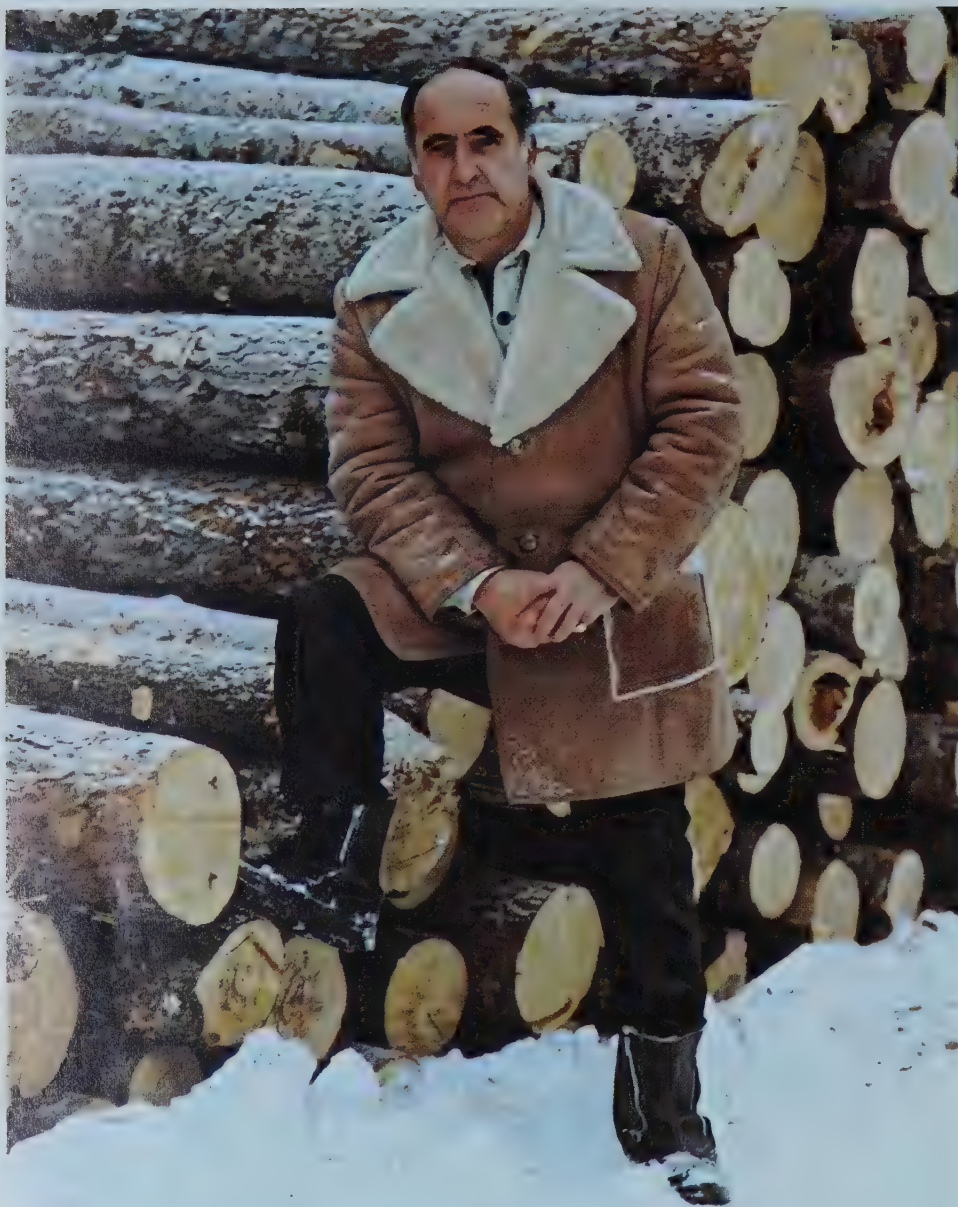


- (a) Newsprint 85%
- (b) Pulp 9%
- (c) Bags and other Specialty Products 1%
- (d) Chemicals and Sundry 5%

Other \$23,679 total Sales (000's)



- (a) Newsprint 43%
- (b) Pulp 43%
- (c) Decorative Products 6%
- (d) Fibre for Recycling 1%
- (e) Chemicals and Sundry 7%



K. D. Greaves, Group Vice-President, Forestry and Wood Products. He joined Reed's subsidiary Anglo-Canadian in 1957. He holds a Bachelor's Degree in Forestry Science from the University of Toronto. Photographed on Reed's woodlands operations at Forestville, Quebec.

Ken Greaves is Group Vice-President, Forestry and Wood Products. This Group is responsible for all of Reed's forestry activities and raw fibre procurement as well as for the manufacture and marketing of lumber and related products. The Forestry and Wood Products Group supplies fibre to our mills in Dryden and Quebec City and operates a small log dimension sawmill with an annual capacity of 35 million board feet located at Red Lake Road, 40 miles from Dryden.

Harvesting operations in Quebec are carried out on 3,300 square miles of limits on the north shore of the St. Lawrence River at Forestville, 200 miles east of Quebec City.

Operations in Ontario are conducted on 6,900 square miles of limits in the Dryden area.

In April of 1974, we exchanged cutting rights to approximately 200 square miles of our Quebec limits with Consolidated Bathurst Limited. This exchange will permit both Reed and Consolidated to conduct more efficient logging operations.

During the first quarter of 1974, the Government of Ontario doubled our stumpage rates. Annual charges and dues levied by the Ontario Government in 1974 exceeded \$1.5 million. The Ontario Government has initiated a study covering the whole field of forest taxation and has indicated a desire to develop a formula which would reflect the health of the forest industry. We would endorse any stumpage formula which would permit us to remain competitive in world markets.

In January of this year, stumpage rates in the Province of Quebec were increased by approximately 70%.

FORESTRY AND WOOD PRODUCTS GROUP



Mechanized harvesting improves productivity and creates skilled high paying woodland jobs.

In December of 1974 the Quebec Government passed Bill 27 amending the Lands and Forests Act. Under this Bill existing timber licenses will be cancelled and another form of forest tenure will be substituted which the Government claims will guarantee an economic and adequate supply of wood fibre.

During the summer forest fires burned over 75,000 acres of our Ontario limits. The greatest part of the acreage burned was covered by windblown timber which had been severely damaged during a storm in July of 1973. Although the fire thwarted the Company's plans to salvage the storm-damaged timber, it caused only minor disruption of our woodlands activities and had no impact on our mill operations.

Approximately 60% of our production at Forestville and 75% at Dryden is harvested by conventional cutting operations. The remainder is cut using

completely mechanized harvesting systems.

During 1974, the Forestry and Wood Products Group procured 1,125,000 bone dry tons of virgin fibre. Of this amount 850,000 bone dry tons were the product of our limit operations in Ontario and Quebec.

Although labour supply was no more than adequate in both provinces, limit production was maintained and fibre inventories, which were low in 1973, have been increased to satisfactory levels.

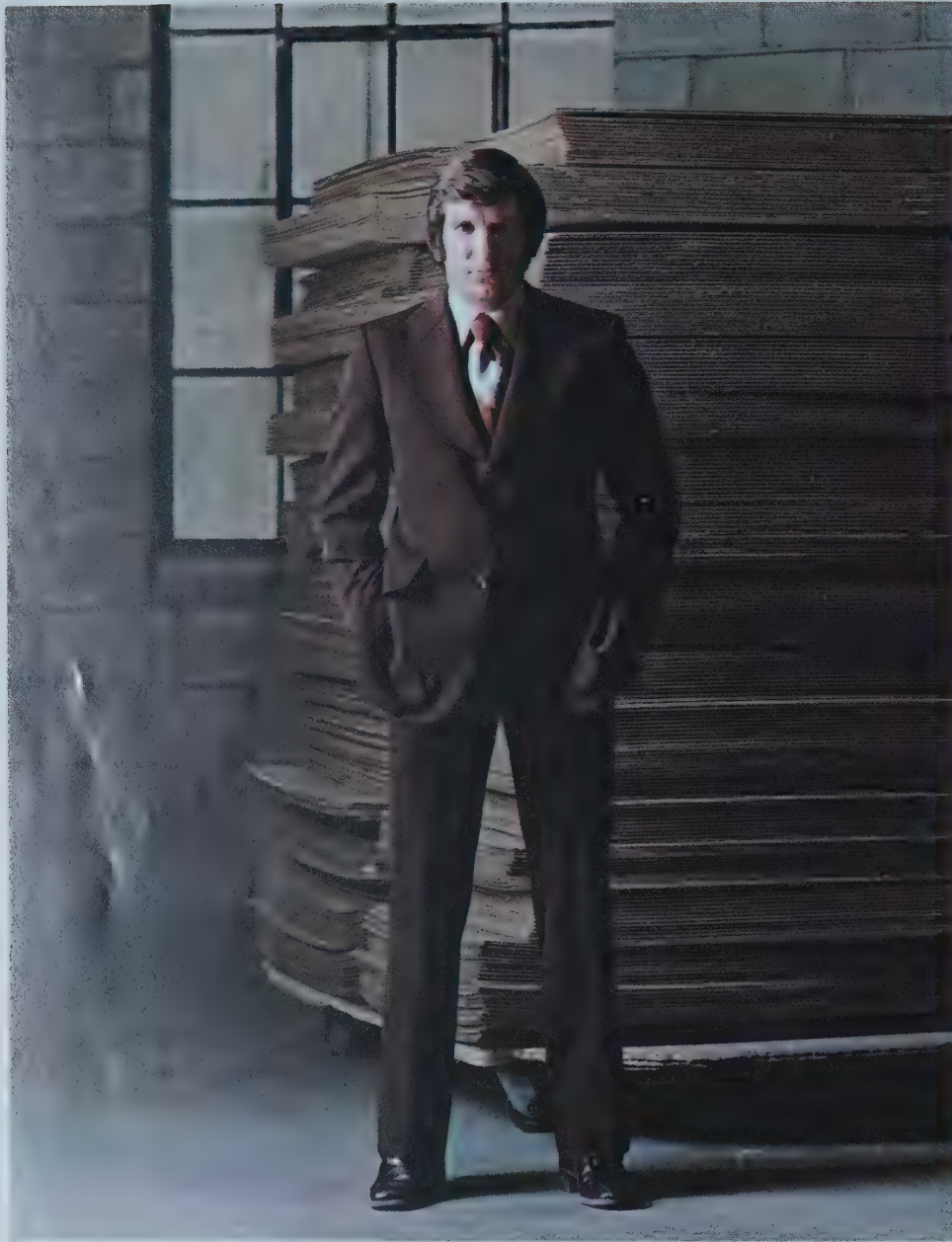
Throughout 1974, world and North American lumber markets continued to deteriorate, primarily as a result of the decline in housing starts. Although low prices and weak demand have continued into 1975, there are indications that the lumber markets have bottomed out. During the last quarter of 1974, lumber production was curtailed and inventories were maintained at levels consistent with the seasonal demand. The demand for lumber is expected to improve throughout 1975.

Early in 1975, a new two-year contract effective October 1, 1974, was signed with the largest group of forest workers at Dryden. Forest workers throughout the Eastern Canadian industry during 1974 received wage adjustments above existing contracts as compensation for increases in the cost of living. During 1975, labour contracts covering part of our forest operations at both Dryden and Quebec will expire.

Recruiting an adequate number of forest workers for our conventional cutting operations continues to be a problem. The

solution lies in the introduction of more sophisticated mechanized harvesting operations which will improve working conditions and increase productivity per man/day. Because of the greatly increased capital investment per worker that is required for this type of operation, it is essential that this harvesting equipment be operated on a continuous seven day per week basis. Within the last five years, all unions representing groups of forest workers on our operations in both Ontario and Quebec, with one exception, have accepted continuous operations. The rejection of continuous operations by the union representing the majority of forest workers in Ontario, if continued, will inhibit the introduction of sophisticated harvesting equipment to the detriment of both the employer and the employee.

We anticipate an excellent year for forest harvesting operations in 1975. Two new harvesters will be added to our Quebec operations and, with continued development of harvesting techniques in both Ontario and Quebec, we confidently anticipate further increases in man/day productivity. The successful recruiting campaign carried on for our Quebec operations in 1974 will be continued in 1975.



E. R. Zukowski, Group Vice-President, Packaging, joined Reed from Hooker Chemical Corporation in 1972. He holds a B.Sc. in Chemical Engineering, and an M.Sc. in Industrial Administration from Purdue University. Photographed at Reed's corrugated box plant on Carlaw Avenue in Toronto.

Reed manufactures and markets corrugated containers, folding boxes, paper bags and high and low density polyethylene bags. In addition, we distribute for resale a large number of packaging related items. Stationery products are also distributed under the name of Spicers. All of these activities are included in the Packaging Group under Group Vice-President Eric Zukowski.

Reed operates bag plants in Winnipeg, Manitoba and Mississauga, Ontario, a bag and folding box plant in Montreal, Quebec and corrugated container plants in Toronto, Ontario and Montreal. Distributing centres are located in Montreal, Mississauga, Quebec City, Hull and London.

Sales in 1974 totalled approximately \$28 million in corrugated products and \$23 million in bag, folding box and distributing activities.

Our corrugated activities performed substantially below expectations in 1974. In the first half of the year, we were faced with raw material supply problems and were forced to pay premiums to obtain adequate supplies of linerboard. Although Reed operates a board mill in Toronto, this supplies only a small part of our requirements, and we purchase most of our board from other manufacturers. During the last quarter of 1974, the supply problem eased as a result of softness in the container market and, by the end of the year, all board premiums had disappeared.

During the first three quarters of the year, the

PACKAGING GROUP



Reed's bag making facilities are located in Winnipeg, Toronto and Montreal enabling us to service accounts from the Prairie Provinces to the Maritimes.

shortages of raw materials placed serious constraints on production, resulting in short runs, large order backlogs and a deterioration in sales service.

In October of 1974 our corrugated box plant in Montreal was hit by a wildcat strike. (This strike was preceded by approximately six months of slowdowns, stoppages and harassment by union members). Following this illegal walkout and in order to keep the plant in production and continue to serve our customers, we recruited and trained new personnel for this plant. This new operating staff has established an excellent productivity record.

We have filed suit against local and international representatives of the International Paper Workers' Union and Canadian Paper Workers' Union as a result of this illegal work stoppage.

The outlook for corrugated

containers is difficult to predict. This market is a traditional indicator of industrial prospects. If 1975 sees a prolonged downturn in the Canadian economy, volumes and prices for these products may deteriorate substantially from 1974 levels. Demand for containerboard, which is the major raw material cost component, has eased in recent months. Containerboard manufacturers, however, have, to date, taken downtime, rather than reduce prices from 1974 levels.

Our paper and plastic bag, folding box, and distributing operations had an excellent year in 1974. This was largely due to volume increases coupled with a modest increase in margins.

All three plants operated at or near capacity during 1974 in response to strong market demand. Tight markets enabled us to raise prices sufficiently to recover increases in labour and raw materials and slightly improve margins.

Ontario operations had an excellent year, largely as a result of a move to a new 200,000 square foot leased building in Mississauga. The move enabled us to consolidate five separate locations, thereby improving operating efficiencies, sales service, productivity and employee morale.

Montreal is the only manufacturing operation remaining in inadequate premises. Plans are underway to move our Montreal bag, folding box and distributing activities to a new 160,000 square foot leased building in the Montreal suburb of St. Laurent by mid-1975. With this move, all

operations will be located in modern, efficient plants.

Our Winnipeg operations again exceeded plan in 1974, achieving excellent sales and production levels. In 1970, we built a 100,000 square foot plant to house our manufacturing and sales activities. We have now reached the limits of this plant, and will add an extension of 100,000 square feet by the end of the year.

The outlook for Reed's bag, folding box and distribution activities appears bright. 1975 should be a strong year but will not be as buoyant as 1974, and our rate of growth will slacken. Activities in the United States bag industry frequently have an impact on the Canadian market. Recently, the Canadian bag producers in Eastern Canada have reduced some prices in the grocery sack category in order to compete against the U.S. manufacturers who were shifting volume into the Canadian market in the face of the downturn in demand in their own domestic market. Prices in other product categories, however, have continued strong.

During 1975, we expect inflationary pressures to subside with the result that stability of prices will be maintained throughout the year for most flexible packaging products.



T. R. Swanston, Group Vice-President, Decorative Products, joined Reed in 1974 from Ethan Allen, Inc. where he was Senior Vice-President. Mr. Swanston holds a B.A. from Amherst College, and an M.B.A. from the Harvard Graduate School of Business Administration. Photographed in the fabric storage area at Reed's upholstered furniture factory in Toronto.

DECORATIVE PRODUCTS GROUP

Decorative Products activities are managed by Group Vice-President Tom Swanston. Reed has been active in the manufacturing and marketing of decorative products in Canada and the United States for a number of years. Our brands include Sunworthy, Birge and Lloyd wallcoverings, General Paint brand paints, and Sanderson wallcoverings and fabrics. We are active in the distribution of wallcoverings and also operate a number of retail paint and wallcovering stores in Canada under the names of Empire Wallpaper and Paint, and General Paint, many of which are extensions of our distribution centres.

Wallcovering plants are located in Toronto, Ontario, Buffalo, New York and Eatontown, New Jersey. A plant in Vancouver manufactures paints for consumer and industrial application.

In the fall of 1973, we began an assessment of our decorative products activities. It became evident as a result of this study that this market is an under-developed one in North America and offers a number of major growth opportunities.

During the second half of 1974, we developed a corporate strategy directed at capitalizing on these opportunities. This strategy involves a substantial expansion of our North American decorative products activities through a combination of internal growth and acquisition.

We are instituting a number of far-reaching changes throughout the Decorative Products Group that will result in



Reed developed and introduced pre-pasted, dry-strippable wallcoverings in North America.

improved marketing and merchandising and better financial and management controls.

Reed International is active in a number of decorative products fields including wallcoverings, fabrics, and related do-it-yourself products, and is the largest manufacturer of wallcoverings in the United Kingdom. We will capitalize on their technical, product development, design, manufacturing and marketing expertise.

As part of this programme we have been studying acquisition prospects in Canada and the United States. In June of 1974, we acquired The Gold Crest Products Limited and its subsidiary National Drapery Company Limited. Gold Crest manufactures moderately priced tables and upholstered furniture. National Drapery is the largest manufacturer of custom made draperies in Canada.

In April of 1975, we acquired the Wallcovering Division of Dwoskin Inc. Dwoskin operates 19 wallcovering distribution centres in the United States.

By developing the potential of our existing markets as well as diversifying into related activities, we are confident in the next few years this group will

increase substantially its contribution to sales and profits.

Total sales for the Decorative Products group in 1974 were approximately \$66 million. Of this total, \$11 million are Gold Crest and National Drapery sales, which are included from the date of acquisition.

Both sales and profits, after discounting the Gold Crest acquisition, exceeded 1973 levels. The last quarter saw a pronounced weakening in the performance of this group as housing starts declined, consumer sales dropped off and distributors and retailers cut back inventories. Orders for the first quarter of 1975 have been slow, resulting in higher than expected inventory levels. In the last quarter of 1974, some downtime was taken in the furniture and wallcovering manufacturing operations in order to adjust production and inventories to the reduced level of sales.

1975 will be a difficult year as the recessionary tendencies which began in the end of 1974 continue to depress sales volumes. If there is an upturn in the second half, however, we look forward to satisfactory sales and profits.

By the end of 1975, the new group organization will be complete, new distribution systems will be functioning, a number of new lines will have been introduced and more sophisticated marketing, financial and manufacturing systems and controls will be in place, setting the stage for a year of substantial growth in 1976.



R. J. Short, Group Vice-President, Linerboard and Pigments, joined Reed on April 15th of this year, from MacMillan Bloedel Limited, where he was Managing Director, Pulp and Paper for Europe. Mr. Short received a degree in Chemistry from Oxford University and completed a post graduate degree also at Oxford. Photographed at the construction site of Reed's 86,000 ton per year linerboard mill in Mississauga, Ontario.

LINER BOARD AND PIGMENTS GROUP

Reed owns a linerboard and medium mill in Toronto with an annual capacity of 25,000 tons. In addition, we are building a new mill in Mississauga, Ontario that will have a rated capacity of 86,000 tons of linerboard a year. We own two plants, one in Ajax and one in New Toronto, Ontario, which manufacture inorganic and organic pigments, respectively. In addition, this Group is responsible for manufacturing and marketing linerboard and for supplying the linerboard and medium needs of the Packaging Group, either by manufacturing these products internally or purchasing them from outside suppliers. It is also responsible for developing our solid waste businesses.

The Linerboard and Pigments Group was formed in April of 1975 and Mr. Roger Short was elected Group Vice-President.

We produced 15,000 tons of linerboard and 10,000 tons of medium in 1974, all of which was used by the corrugated container plants of the Packaging Group.

We announced plans for a new linerboard mill in November of 1973.

In June of 1974, we were notified that our building site was



Pigment filter press at Reed's organic pigment plant in New Toronto, Ontario.

required for the construction of a proposed Ontario Hydro line.

Because of the impending expropriation of this site, we had to relocate on an adjacent tract of land and redo a number of site preparation and engineering studies. This delayed the project by approximately six months and start-up is scheduled for mid 1976. This delay, coupled with changes in the project's scope and ever rising wages and prices, has increased the capital cost of this mill to an estimated \$30 million.

We anticipate the entire output of this new mill will be used by our Packaging Group.

Dominion Colour Corporation Limited which is the subsidiary responsible for our pigment activities had sales of approximately \$12 million in 1974, of which 28% were to export markets and 72% were to Canadian customers.

The bulk of our pigments is sold to paint and printing ink manufacturers who have been hard hit by the economic downturn. As a result, we anticipate our pigment activities will experience lower demand throughout the year resulting in a decline in sales volume and margins.

RECYCLING DIVISION

Reed's Recycling Division buys, sells and processes secondary fibre, both for use within the Company's operations and for sale to others. Storage and processing facilities are located in Quebec City, Montreal, Toronto and Buffalo, New York. The division is headed by Dan Krever, General Manager, Recycling Division. The Division works in close conjunction with the Linerboard and Pigments Group.

1974 sales totalled \$8,918,000. Secondary fibre was the first pulp and paper category to feel the impact of the North American economic slowdown. Prices began to decline mid way through 1974 and we anticipate that the market will continue to be weak throughout 1975.



R. C. Buser, Group Vice-President, Technical, joined Reed in 1973, from Hooker Chemical Corporation. Prior to joining Hooker, Mr. Buser worked for Reed's subsidiary Anglo-Canadian for eleven years. He holds a B. Eng. degree from McGill University in Chemical Engineering. Photographed in Reed's sulphite pulp mill in Quebec City.

TECHNICAL GROUP

The Technical Group is responsible for Reed's overall research and development and engineering activities. Central research and development laboratories are located in Quebec City, and engineering offices are maintained in Quebec City and Toronto. Raoul Buser is Group Vice-President, Technical.

In March of 1974, Reed acquired the business of the Toronto-based firm of D. D. Dick Engineering Limited which became the Dick Engineering Division of Reed's Technical Group. It operates as a profit centre and markets its services and expertise to outside companies as well as to the operating groups within Reed. Client groups within the company account for about one half of the division's billings. The 150 people employed in the Technical Group have expertise in pulping and bleaching, secondary fibre recovery and processing, wood handling, and fibre resource technology.

The Engineering and Research Departments are both heavily involved in the proposed expansion, modernization and optimization of our Dryden pulp mill.

In particular, a great deal of study has been given to environmental requirements, as part of the process of designing the modern effluent control



Approximately 150 people are employed in Reed's Technical Group.

system that will be included in this project.

A turpentine purification plant which makes us the largest producer of solvent grade turpentine in Canada started up at Dryden in April of 1975. This plant uses technology developed by the Technical Group.

The Technical Group is in charge of the renovation of our chlorine and caustic soda chemical plant at Dryden. Present mercury cells will be replaced with new non-mercury Hooker permionic membrane cells, by the end of 1975.

Equipment was ordered for the new 86,000 ton per year containerboard mill in Mississauga, Ontario. This is scheduled for start-up in mid 1976. At our Quebec mill we installed a computerized roll-wrapping system for newsprint in 1974.

As announced earlier, we are studying the possibility of building a new 1,000 ton per day kraft pulp mill in the Red Lake area of Northwestern Ontario. The Technical Group spent a great deal of its time on this

feasibility study in 1974, particularly on assessing the impact on the ecology of the area in an attempt to determine the best location for the mill. In response to the requirements of Ontario's Ministry of the Environment and Ministry of Natural Resources we have commissioned a detailed environmental impact study. In 1974 we spent approximately \$600,000 in fees to external consultants working on site location and environmental impact studies.

Research and development activities are results oriented, with research being requested and sponsored by the operating groups. We also constantly monitor developments throughout the world in research and engineering fields that relate to the Company's activities.

In addition to research studies related to the capital projects mentioned above, research and development activities were concentrated on energy saving and fuel economy studies, and recycling and secondary fibre investigations, including utilization of sawmill wastes.

JOINT VENTURE INVESTMENTS



In the foreground is the Intercontinental kraft pulp mill, behind it is the Prince George kraft pulp and paper mill.

Reed has investments in three forest products companies in British Columbia; Prince George Pulp and Paper Limited, in which it is an equal partner with Canadian Forest Products Ltd.; Intercontinental Pulp Company Ltd., in which 37.5% of the shares are owned by Reed, 37.5% by CFP and 25.0% by Feldmuhle A.G. of West Germany, and Takla Forest Products Limited, in which Reed holds 43.75% of the shares, CFP 43.75% and Feldmuhle 12.5%.

Prince George owns a modern pulp and paper mill in Prince George, British Columbia with an annual rated capacity of approximately 140,000 tons of market kraft pulp and 110,000 tons of sack kraft paper. Intercontinental is located in Prince George as well, and consists of a modern pulp mill that has an annual rated capacity of approximately 240,000 tons of bleached and unbleached kraft pulp. Takla produces dimension lumber, studs, veneer and chips. It has production facilities at the Isle Pierre Division, located near Prince George, and at Fort St. James which is approximately 105 miles northwest of Prince George.

The output of Intercontinental is committed under long term sales agreements to Reed International and Feldmuhle. Pulp from the Prince George mill is marketed by CFP and about 90% of its output is sold under contract. Reed International is committed to purchasing 44,000 tons of sack kraft a year from Prince George and to either consuming or selling the remainder on a best effort basis.

SUMMARIZED STATEMENTS OF EARNINGS
(thousands of dollars)

	Prince George Pulp and Paper Limited		Intercontinental Pulp Company Ltd.		Takla Forest Products Limited	
	Financial Year Ended in December		Financial Year Ended in December		Financial Year Ended December 31	
	1974	1973	1974	1973	1974	1973
Sales	\$56,037	38,551	49,648	32,192	21,554	25,186
Earnings (loss) before taxes on income and extraordinary items	21,069	8,006	16,075	5,151	(5,231)	1,432
Taxes on income	7,968	3,435	7,856	2,170	—	741
Earnings (loss) before extraordinary items	13,101	4,571	8,219	2,981	(5,231)	691
Extraordinary items	3,372	3,405	2,285	1,956	—	672
Net earnings (loss)	\$16,473	7,976	10,504	4,937	(5,231)	1,363
Company's proportionate share	\$ 8,237	3,988	3,939	1,852	(2,289)	608

SUMMARIZED STATEMENTS OF FINANCIAL POSITION
(thousands of dollars)

	Prince George Pulp and Paper Limited		Intercontinental Pulp Company Ltd.		Takla Forest Products Limited	
	Financial Year Ended in December		Financial Year Ended in December		Financial Year Ended December 31	
	1974	1973	1974	1973	1974	1973
Current assets	\$21,345	20,202	17,965	17,191	3,796	5,140
Current liabilities	15,219	23,042	10,931	16,654	6,985	10,556
Working capital (deficiency)	6,126	(2,840)	7,034	537	(3,189)	(5,416)
Fixed assets, net	56,060	54,981	52,148	50,936	14,416	13,824
Other assets	1,083	1,138	1,669	1,810	378	339
	63,269	53,279	60,851	53,283	11,605	8,747
Amount due to (from) joint venture companies	(8,268)	(2,345)	(6,011)	(2,345)	14,279	4,690
Long term debt—other	50,480	54,223	48,316	51,907	6,823	8,323
Deferred items	4,846	1,663	6,781	2,460	—	—
	47,058	53,541	49,086	52,022	21,102	13,013
Shareholders' equity (deficit)	\$16,211	(262)	11,765	1,261	(9,497)	(4,266)
Represented by: Share capital	\$10,000	10,000	8,000	8,000	100	100
Retained earnings (deficit)	6,211	(10,262)	3,765	(6,739)	(9,597)	(4,366)
	\$16,211	(262)	11,765	1,261	(9,497)	(4,266)

Sales for the joint venture companies totalled \$127,239,000 in 1974. Of these sales, approximately \$106 million represents pulp and paper products and \$21 million is in lumber, chips, studs and veneers.

Income from operations totalled \$31,913,000 in 1974. The joint venture companies generated \$5,657,000 of tax credits arising as the result of losses sustained in prior years. Reed's share of the earnings of the joint venture companies was \$9,887,000. On the Reed statement of earnings we do not show joint venture sales, since the income from these companies is accounted for on the equity method of accounting.

Throughout the year, our joint venture investments were constrained from taking full advantage of the buoyant world-wide pulp and paper market by labour, raw material and operating problems which resulted in disappointing production levels.

Heavy snows and excessive cold caused operating problems throughout the winter and spring of 1974 as chip piles froze, feed lines clogged and mechanical systems broke down. This was

followed by an extremely heavy spring run-off which caused water supply failures resulting in lower production levels and some off grade product.

A combination of strikes, both in the transportation system and at supplier mills interfered with smooth and regular production scheduling and created periods of chemical and other raw material shortages.

From December 2nd, to the end of the year our operations made unbleached pulp only since chlorine shipments were interrupted by a province-wide railroad work stoppage. Chlorine shipments were resumed January 13, 1975.

The labour situation in British Columbia was unsettled during most of 1974. There was much union agitation which finally culminated in an illegal strike against the entire British Columbia pulp and paper industry on June 10th. This strike lasted for five days and settlement at a mid-point in the contract was reached, which included a cost of living clause and a retroactive wage adjustment to April 1st.

Contracts with union employees at our British Columbia pulp mills expire in June of 1975. We anticipate the negotiation of a new contract will be a protracted and difficult process.

As mentioned earlier in this report, the outlook for pulp and paper products is uncertain through the beginning of 1976. Although the bulk of Prince George's and Intercontinental's output has an assured market, the prices paid are tied to the

announced market prices for pulp and paper. A prolonged downturn accompanied by a drop in market prices would have a negative impact on sales and revenues.

The outlook for lumber products is also uncertain, although prices are expected to improve as housing starts accelerate. In 1974, the B.C. government introduced new legislation which has serious implications for the forest industry. It is now in a position to, and in fact has, set minimum prices at which interior sawmills sell chips to the pulp industry. Prince George and Intercontinental are now required to pay the statutory price and can no longer negotiate the purchase price of chips. This move by the Government makes future planning difficult for all segments of the interior industry and it is hoped that the Government will change its position in the near future.

On January 1, 1975, Mr. Mark. H. Gunther was elected President of Prince George, Intercontinental and Takla. He has many years experience in the forest products industry and we are confident that under his knowledgeable management these modern facilities will attain full productive capacity and improved profitability.

FINANCIAL SECTION

SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Reed Paper Ltd. and all its subsidiary companies. All material intercompany balances, transactions and profits have been eliminated.

FOREIGN CURRENCY TRANSLATIONS:

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect as at the balance sheet dates, non-current assets at rates in effect at the dates of acquisition, long-term liabilities at rates in effect when the debt was incurred, and income and expense transactions at average rates of exchange during the year.

VALUATION OF INVENTORIES:

Finished products including work in process have been valued at the lower of cost and net realizable value and all other inventories have been valued at the lower of cost and replacement cost.

FIXED ASSETS:

Fixed assets are recorded at cost and determined values. Grants received under government assistance programmes are deducted from the cost of fixed assets.

The costs of major additions and replacements are capitalized as fixed assets; maintenance, repairs and minor replacements are expensed in the year in which they are incurred. On retirement or disposal of fixed assets, the costs thereof and related accumulated depreciation or depletion are eliminated from the accounts and any resultant gain or loss is reflected in the earnings.

DEPRECIATION AND DEPLETION:

Depreciation on property, plant and equipment is provided at rates which are estimated to amortize the cost of such assets over their productive lives.

Depreciation on major projects is not provided until the asset is operational.

Depletion on timber limits and lands is determined on a basis related to log production on the original cost or valuation of the property.

INVESTMENT IN NON-CONTROLLED COMPANIES:

The Company accounts for its investments in three joint venture companies on the equity method of accounting. The Company's share of earnings of these companies is included in consolidated net earnings for the year. The investment accounts are carried at cost and are increased by the Company's proportionate share of earnings, net of losses, since dates of acquisition and will be decreased by dividends received. No dividends have been received to December 28, 1974. Other investments are accounted for on a cost basis.

INTANGIBLE ASSETS:

In connection with business combinations subsequent to March 31, 1974, the Canadian Institute of Chartered Accountants recommends that the unallocated excess of the cost of shares of subsidiary companies acquired over the book value of their net assets at date of acquisition ("goodwill") be amortized to income by the straight-line method over the estimated life of such goodwill. Consequently, the Company has adopted the policy of amortizing goodwill acquired after that date using a period of forty years.

Trade marks are carried at cost; debenture discount is amortized to income over the term of the related debt.

INCOME TAXES:

The Company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable are reflected in Deferred Income Taxes and arise from items of revenue and expense (such as depreciation) being included in reported profits in periods other than those in which they are included in the determination of taxable income.

RESEARCH AND DEVELOPMENT:

Research and development expenditures are charged to earnings in the year in which they are incurred.

EARNINGS PER COMMON SHARE:

Earnings per common share are calculated on a weighted monthly average of common shares outstanding, after giving consideration to the subdivision of shares as set out in Note 2 (a) (iii) to the Consolidated Financial Statements. Fully diluted earnings per share are calculated on the basis that all of the outstanding preferred shares had been converted into common shares on the dates issued.

FINANCIAL REPORTING PERIOD:

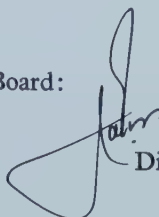
During 1974, the Company has amended its by-laws to change its financial year to the last Saturday in the calendar year from December 31 in order to conform to operational reporting periods.

CONSOLIDATED BALANCE SHEET
(in thousands of dollars)

	December 28, 1974	December 31, 1973
ASSETS		
		(Restated- Note 2 (b))
Current Assets		
Cash	\$ 402	\$ 2,551
Short term investments, at cost which approximates market	358	4,890
Accounts receivable	44,291	32,814
Due from affiliated companies	4,091	4,036
Inventories (Note 3)	81,199	45,036
Prepaid expenses	4,743	2,621
Total Current Assets	135,084	91,948
Fixed Assets (Note 4)	81,388	64,805
Other Assets		
Investment in joint venture companies (Note 5)	22,906	16,519
Other investments (Note 6)	1,601	1,552
Advances under the executive incentive plan (Note 7)	1,645	1,417
Goodwill, at cost less amortization	54,081	39,401
	80,233	58,889
	\$296,705	\$215,642

See accompanying notes to consolidated financial statements.

On behalf of the Board:


Director

R. W. Billingsley
Director

LIABILITIES	December 28, 1974	December 31, 1973
		(Restated- Note 2 (b))
Current Liabilities		
Bank indebtedness	\$ 40,835	\$ 8,988
Accounts payable	29,533	23,440
Dividends payable	2,257	280
Taxes on income	12,800	7,330
Due to affiliated companies	1,903	772
Instalments on long term debt due within one year	1,350	5,130
Total Current Liabilities	88,678	45,940
Long Term Debt		
Notes and mortgages payable (Note 8)	4,946	5,819
Bonds and debentures (Note 9)	26,509	28,859
	31,455	34,678
Deferred Income Taxes	9,773	7,469
Minority Interest (Note 10)	573	16,695
Shareholders' Equity		
Share capital (Note 11)		
Preferred shares	26,545	—
Common shares	80,002	80,002
	106,547	80,002
Retained earnings	59,679	30,858
	166,226	110,860
Contingent Liabilities and Commitments (Notes 13 and 14)		
	\$296,705	\$215,642

CONSOLIDATED STATEMENT OF EARNINGS
(in thousands of dollars)

REED PAPER LTD.

	Year Ended	
	December 28,	December 31,
	1974	1973
		(Restated- Note 2 (b))
Sales	\$303,201	\$217,568
Cost of sales including administrative, selling and general expenses	238,823	183,331
Depreciation, depletion and amortization	7,786	6,173
Interest on long term debt	2,504	2,650
	249,113	192,154
Earnings from operations	54,088	25,414
Other income	2,072	1,722
	56,160	27,136
Share of earnings net of losses of joint venture companies	14,274	6,573
Earnings before taxes on income, minority interest and extraordinary items	70,434	33,709
Taxes on income		
Of the Company	25,091	12,225
Of the joint venture companies	6,930	2,819
	32,021	15,044
Earnings before minority interest and extraordinary items	38,413	18,665
Minority interest in earnings	4,368	2,077
Earnings before extraordinary items	34,045	16,588
Extraordinary items (Note 15)	2,402	2,944
Net earnings	\$ 36,447	\$ 19,532
Earnings per common share		
Before extraordinary items	\$ 4.87	\$ 2.41
After extraordinary items	\$ 5.22	\$ 2.84
Fully diluted earnings per common share		
Before extraordinary items	\$ 4.77	\$ 2.41
After extraordinary items	\$ 5.11	\$ 2.84

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(in thousands of dollars)

REED PAPER LTD.

	Year Ended	
	December 28, 1974	December 31, 1973
		(Restated- Note 2 (b))
Retained earnings at beginning of year	\$ 30,858	\$ 18,210
Net earnings	36,447	19,532
	67,305	37,742
Less		
Excess of cost of shares acquired over recorded capital of Arthur Sanderson & Sons (Canada) Limited including minority interest	—	6,884
Dividends		
Common	7,096	—
Preferred	530	—
	7,626	6,884
Retained earnings at end of year	\$ 59,679	\$ 30,858

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders
Reed Paper Ltd.

We have examined the consolidated balance sheet of Reed Paper Ltd. and subsidiaries as at December 28, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of certain of the subsidiary companies and of the joint venture companies, the results of which have been included on the equity basis of accounting.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as at December 28, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Leit, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Ontario
February 28, 1975

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of dollars)

REED PAPER LTD.

	Year Ended	
	December 28,	December 31,
	1974	1973
Source of funds		(Restated— Note 2(b))
Net earnings	\$36,447	\$19,532
Charges (credits) to earnings not affecting working capital:		
Depreciation, depletion and amortization including amortization of goodwill of \$120 (1973 nil)	7,786	6,173
Deferred income taxes	2,020	1,611
Share of earnings of joint venture companies	(9,887)	(6,448)
Minority interests	4,368	2,077
Funds provided from operations	40,734	22,945
Issue of preferred shares	26,545	—
Disposal of fixed assets	3,660	868
Reduction in other assets	3,612	2,265
Notes and mortgages	909	8,400
Disposal of subsidiary companies	—	571
Issue of common shares by subsidiary company to minority interests	65	515
Other items	—	(50)
Total funds provided	75,525	35,514
Application of funds		
Acquisition of subsidiary companies (Note 2 (f)):		
Total purchase consideration	10,755	—
Less working capital acquired	(2,877)	—
	7,878	—
Fixed assets	23,475	11,507
Shares of subsidiary companies:		
Anglo-Canadian Pulp and Paper Mills, Limited (Note 2 (d))	27,191	—
Reed Decorative Products Ltd.	—	3,449
Redemption of preferred shares of subsidiary companies	1,511	3,869
Long term debt	6,391	9,877
Dividends including amounts paid to minority interests of \$827 (1973-\$862)	8,453	862
Executive incentive plan	228	1,417
Total funds used	75,127	30,981
Increase in working capital for the year	398	4,533
Working capital at beginning of year	46,008	41,475
Working capital at end of year	\$46,406	\$46,008

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Accounting Policies:

A summary of the major accounting policies is set out on page 30.

2. Corporate Reorganization and Acquisitions:

(a) During 1974, the Company has been granted Supplementary Letters Patent:

(i) changing its name to Reed Paper Ltd. from Reed Paper Group Canada Limited;

(ii) increasing the authorized share capital from 1,000 shares to 1,500 shares without nominal or par value;

(iii) changing the authorized and issued share capital by the subdivision of the 1,200 issued and outstanding shares without nominal or par value into 6,874,193 common shares without nominal or par value and the subdivision of the 300 unissued shares without nominal or par value resulting in an authorized share capital of 25,000,000 common shares without nominal or par value;

(iv) increasing the authorized share capital by the creation of 2,000,000 \$2 cumulative redeemable convertible voting preferred shares of the par value of \$25.00 each.

(b) On May 6, 1974, the Company acquired all of the issued and outstanding common shares of Arthur Sanderson & Sons (Canada) Limited ("Sanderson") from Reed Paper Holdings Ltd. ("Reed Holdings") in exchange for 200 shares of the Company having a stated value of \$19,023,000.

As the Company and Sanderson have been under the common control of Reed Holdings or its affiliates, the acquisition of Sanderson by the Company merely represents a combination of the common ownership interest in each of them. Accordingly, the assets and liabilities of Sanderson and its subsidiaries were not adjusted to reflect fair values at May 6, 1974 and the consolidated balance sheets at December 28, 1974 and at December 31, 1973 have been prepared on the basis of combining the carrying value of the Company's and Sanderson's respective assets and liabilities as shown by their separate consolidated financial statements after elimination of all material inter-company balances and profits between the Company and Sanderson.

The consolidated statements of earnings, retained earnings and changes in financial position for the fiscal years ended December 28, 1974, and December 31, 1973, give effect to the acquisition of Sanderson by the Company, as described above, and reflect the combination of the separate consolidated financial statements of the Company and its subsidiaries and of Sanderson and its subsidiaries after elimination of all material inter-company transactions and profits.

(c) On June 5, 1974, a subsidiary, Reed Decorative Products Ltd. (formerly Canadian Wallpaper Manufacturers Limited), effectively acquired all of the issued and outstanding shares of Reed Ltd. (formerly The Gold Crest Products Limited) ("Gold Crest"). Gold Crest is engaged in the manufacture of furniture and custom drapery. The acquisition was effected by means of an amalgamation of Gold Crest with a subsidiary of Reed Decorative Products Ltd. to create a new corporation. Under the terms of the amalgamation the former shareholders of Gold Crest received redeemable

preferred shares in the new corporation which were subsequently redeemed for cash. The effective purchase price to Reed Decorative Products Ltd. for all of the common shares was as follows:

	(thousands)
(i) The former shareholders of Gold Crest received 45,936 Class "A" non-voting redeemable preference shares with a par value of \$10.00 each of the new corporation in exchange for the 45,936 Class "A" non-voting redeemable preference shares, par value \$10.00 each held by them	\$ 459
(ii) The former shareholders of Gold Crest received 1,010,000 Class "B" non-cumulative redeemable preference shares with a par value of \$8.50 each for the 1,010,000 common shares held by them	8,585
	9,044
Costs of acquisition	215
	\$9,259

The net assets of Gold Crest and its subsidiaries had a net book value of \$3,818,000 at date of acquisition and were considered to approximate fair value. Accordingly, the excess of the cost of purchase over the book value of assets acquired, amounting to \$5,441,000, has been attributed to goodwill.

The acquisition of Gold Crest has been accounted for on a purchase basis and the operating results have been included in consolidated earnings from the date of acquisition.

(d) On August 23, 1974, the Company made an offer to the holders of the common shares of a subsidiary, Anglo-Canadian Pulp and Paper Mills, Limited ("Anglo") to acquire the 1,093,194 common shares not owned by the Company. Under the terms of the offer, each common share of Anglo could be exchanged for one \$2 cumulative redeemable convertible voting preferred share of the par value of \$25.00. Pursuant to this exchange offer, the Company had acquired 1,061,819 of the outstanding shares by December 28, 1974 and has received authority from the Quebec courts to acquire the remainder in January, 1975.

The effective purchase price for these shares was as follows:

	(thousands)
Issue of 1,061,819 preferred shares, par value \$25.00 each	\$26,545
Costs of acquisition	646
	27,191
Net assets of Anglo acquired at book value	18,225
Excess of the cost of purchase over book value of net assets, assigned to goodwill	\$ 8,966

The book value of assets acquired and liabilities assumed being considered to approximate fair value, the excess of the cost of purchase over the book value of assets acquired has been attributed to goodwill.

(e) In addition during 1974 the Company acquired the net assets of a company for a cash consideration of \$646,000 and a subsidiary acquired the shares of another company for \$850,000 cash, the operations of both being included in consolidated earnings from their respective dates of acquisition.

(f) As a result of the purchase of subsidiary companies during the year, referred to in (c) and (e) above, the Company has acquired assets and assumed liabilities as follows:

	(thousands)
Fixed assets	\$ 4,434
Goodwill	5,987
Long term debt	(2,259)
Deferred taxes	(284)
	7,878
Working capital	2,877
Total purchase consideration	\$10,755

3. Inventories:

	December 28, 1974 (thousands)	December 31, 1973 (thousands)
Pulpwood and logging supplies—including expenditures on logging operations in progress	\$24,534	\$17,062
Raw materials and supplies	27,176	10,314
Finished products, including work in process	29,489	17,660
	\$81,199	\$45,036

4. Fixed Assets:

	December 28, 1974 (thousands)	December 31, 1973 (thousands)
Lands, buildings, machinery and equipment—at cost	\$200,499	\$179,330
Less:		
Accumulated depreciation	122,404	116,218
Provision for loss on plant disposal	—	1,700
	122,404	117,918
	78,095	61,412
Timber limits and lands:		
At cost and valuation determined in 1920	7,392	7,392
Less accumulated depletion	4,099	3,999
	3,293	3,393
	\$ 81,388	\$ 64,805

5. Investment in Joint Venture Companies:

	December 28, 1974 (thousands)	December 31, 1973 (thousands)
Prince George Pulp and Paper Limited (50% owned):		
5,000,000 Class A common shares, at cost	\$ 5,000	\$ 5,000
6% subordinated debentures, due October 15, 1986	7,500	7,500
7% promissory note, due on demand	—	3,500
	12,500	16,000
Company's share of surplus (deficit)	3,106	(5,131)
Net book value of investment	15,606	10,869
Intercontinental Pulp Company Ltd. (37.5% owned):		
3,000,006 common and management shares, at cost	3,000	3,000
6.55% subordinated debentures, Series "A", due January 15, 1988	4,500	4,500
	7,500	7,500
Company's share of surplus (deficit)	1,413	(2,526)
Net book value of investment	8,913	4,974
Takla Forest Products Limited (43.75% owned):		
43,750 common shares, at cost	44	44
7% debentures, due November 1, 1982	1,269	1,269
9% demand loan	1,093	1,093
	2,406	2,406
Company's share of (deficit)	(4,019)	(1,730)
Net book value of investment	(1,613)	676
Total net book value of investments	\$22,906	\$16,519

Summarized financial information of the Joint Venture Companies which has been extracted from audited financial statements is set out on page 27.

6. Other Investments:

	December 28, 1974	December 31, 1973
	(thousands)	(thousands)
Shares in associated and other companies	\$ 309	\$ 312
Debentures, advances and notes receivable	1,292	1,240
	\$1,601	\$1,552

7. Executive Incentive Plan:

Under an executive incentive plan instituted in 1973, a subsidiary company made interest-free mortgage loans aggregating \$1,142,000 (December 31, 1973—\$920,000) to key officers and employees to assist them in home financing. Interest-free loans due over a period of seven years totalling \$503,000 (December 31, 1973—\$497,000) have been made to trustees for the benefit of key officers and

employees of the Company to enable them to purchase common shares of the subsidiary company at market values current at the date of purchase. An amount of \$788,000 is owing at December 28, 1974 (December 31, 1973—\$417,000) from senior officers, some of whom are directors of the Company under the terms of the executive incentive plan.

8. Notes and Mortgages Payable:

	December 28, 1974	December 31, 1973
	(thousands)	(thousands)
Notes:		
Non-interest bearing, forgivable Ontario Development Corporation Loans	\$ 453	\$ 513
Due to bank, payable \$125,000 quarterly to 1976	1,000	1,500
8½% secured, due 1984, U.S. \$2,100,000	2,236	—
Non-interest bearing	—	645
Other	394	229
Mortgages:		
8¾% payable in 1978	261	—
9% payable in 1978	361	—
6% payable \$200,000 in 1975 and \$90,000 in 1976	290	490
7¼% payable \$54,920 monthly including principal and interest to June 1, 1979	—	2,953
9% payable in full August 1978, interest payable quarterly	970	970
Other	78	109
	6,043	7,409
Less payable within one year	1,097	1,590
	\$4,946	\$5,819

Instalments of notes and mortgages payable maturing in each of the years 1975, 1976, 1977, 1978 and 1979 amount to \$1,097,000 \$1,010,000, \$368,000, \$1,892,000 and \$250,000 respectively.

9. Bonds and Debentures:

	Maturity	December 28, 1974	December 31, 1973
		(thousands)	(thousands)
Reed Paper Ltd.: 6½ % sinking fund, redeemable Series "A"	1985	\$10,949	\$12,272
Anglo-Canadian Pulp and Paper Mills, Limited: 6¼ % sinking fund, Series "A"	1978	1,536	2,144
5 % sinking fund, Series "B", U.S. \$3,700,000	1984	3,975	4,190
6½ % sinking fund, Series "C"	1986	5,302	5,590
Dryden Paper Company, Limited: 4¾ % sinking fund	1974	—	2,978
Reed Decorative Products Ltd.: 8¾ % sinking fund, Series "A"	1992	5,000	5,000
General Paint Corporation of Canada Limited: 6¾ % First Mortgage sinking fund bonds, Series "A"	1986	—	325
		26,762	32,499
Less debentures held for sinking fund requirements		—	100
		26,762	32,399
Less due within one year		253	3,540
		\$26,509	\$28,859

Instalments of debentures maturing in each of the years 1975, 1976, 1977, 1978 and 1979 amount to \$253,000, \$2,122,000, \$2,222,000, \$2,222,000 and \$1,972,000 respectively. As a result of certain corporate reorganizations and in con-

formance with the terms of the trust indenture securing the Company's debentures, at December 28, 1974 approximately \$4,300,000 of consolidated retained earnings may not be distributed as dividends on common shares.

10. Minority Interest:

	December 28, 1974	December 31, 1973
	(thousands)	(thousands)
Redeemable convertible preferred shares	\$ —	\$ 1,511
Common shares, including applicable proportion of retained earnings	573	15,184
	\$ 573	\$16,695

11. Share Capital:

	Authorized		Issued and Outstanding	
	Shares	Amount	Shares	Amount
		(thousands)		(thousands)
(a) \$2 Cumulative Redeemable Convertible Voting Preferred Shares, par value \$25.00: Created during the year by issue of supplementary letters patent (Note 2 (a))	2,000,000	\$50,000		
Issued as consideration for the common shares of Anglo (Note 2 (d))			1,061,819	\$26,545
Balance December 28, 1974	2,000,000	\$50,000	1,061,819	\$26,545
	Shares Authorized		Issued and Outstanding Shares	
			(thousands)	
(b) Common shares without nominal or par value: Balance December 31, 1973		1,000	1,000	
Supplementary letters patent (Note 2 (a) (ii))		500		
Issued as consideration for the outstanding common shares of Sanderson (Note 2(b))			200	
		1,500	1,200	\$80,002
Subdivision of common shares (Note 2 (a) (iii))		25,000,000	6,874,193	
Balance December 28, 1974		25,000,000	6,874,193	\$80,002

Of the 18,125,807 unissued common shares at December 28, 1974, 1,093,194 are reserved to satisfy the conversion right attaching to the preferred shares (Note 2 (d)).

12. Statutory Information:

The aggregate remuneration of directors and senior officers of the Company was as follows:

	Received as Directors		Received as Officers	
	1974	1973	1974	1973
Paid by:				
Reed Paper Ltd.	\$ 7,750	7,000	594,865	115,333
Anglo-Canadian Pulp and Paper Mills, Limited	14,250	13,833	48,430	137,931
Reed Decorative Products Ltd.	—	—	—	26,158
	\$22,000	20,833	643,295	279,422

The 1974 totals include remuneration of ten directors (1973—10) of whom three (1973—3) are also officers and twelve officers

(1973—6), including past officers, who are not directors.

13. Contingent Liabilities:

(a) The actions instituted in prior years against two subsidiary companies for alleged mercury pollution of certain lakes and rivers in Northwestern Ontario and Manitoba in the aggregate amount of \$5,725,000 are being contested in the courts. It is not possible to estimate the ultimate liability, if any, arising out of these proceedings.

(b) Anglo has been advised by the National Harbours Board that it

would be responsible for dredging costs of the St. Charles River estuary because of past discharge of refuse and waste. Anglo does not agree that it is responsible for any part of these costs.

(c) The Company, Reed International Limited (an affiliated company) and a joint venture partner are parties to a deficiency agreement by the terms of which they have undertaken a joint and several obligation to pay interest, premium (if any), sinking fund and principal payments on first mortgage bonds of two joint

venture companies amounting in the aggregate to \$78,600,000 at December 28, 1974 (December 31, 1973—\$86,000,000) should these joint venture companies be unable to do so.

(d) The Company has guaranteed the bank borrowings of a joint venture company, to a maximum of \$2,400,000 (December 31, 1973—\$3,100,000).

14. Commitments:

(a) On November 1, 1974, Desatoya Limited ("Desatoya"), a wholly-owned subsidiary of the Company, and Alpa Industries Limited ("Alpa") entered into a Representations Agreement and an Amalgamation Agreement which contemplate that Desatoya and Alpa will be amalgamated and continued as one corporation under the provisions of The Business Corporations Act. Approval for such action has been given by the shareholders of both corporations and the finalization of the proposed amalgamation is subject to the approval of the Foreign Investment Review Agency.

Under the terms of the agreements, if the amalgamation becomes effective, the shareholders of Alpa will receive one voting non-cumulative redeemable preference share with a par value of \$12.00 in the capital of the amalgamated corporation for each share held by them in the capital of Alpa. Such preference shares will be subsequently redeemed for cash and together with additional costs, the total acquisition is estimated to be approximately \$15,000,000. The funds required for the acquisition of Alpa will be provided through appropriate bank financing.

Alpa and its subsidiary companies are engaged in the purchase, processing and distribution of lumber products and the manufacture of custom prefabricated lumber products.

(b) Commitments for capital expenditures at December 28, 1974 were approximately \$15,740,000 (December 31, 1973—\$1,400,000).

During 1974, Anglo agreed to post a performance bond with the Ontario Government in the amount of \$500,000 to guarantee that construction of certain new facilities will commence by December, 1976.

(c) Amounts paid in 1974 in respect of long-term leases were approximately \$3,200,000. Future annual rentals under lease obligations outstanding on December 28, 1974 will be due in each of the years 1975, 1976, 1977, 1978 and 1979 in the amounts of \$3,700,000, \$3,600,000, \$3,200,000, \$2,900,000, \$2,500,000 respectively and \$18,300,000 thereafter.

(d) Supplementary pension costs arising from increases in past service benefits and other revisions to employees' pension plans are being amortized over periods extending up to 1990, except for a United States subsidiary company for which the period extends to 2002. At December 28, 1974, the total unfunded liability was estimated at \$6,800,000 (December 31, 1973—\$4,650,000).

15. Extraordinary Items:

	Year ended December 28, 1974	December 31, 1973
	(thousands)	(thousands)
Income tax reduction due to losses carried forward principally in the joint venture companies	\$2,622	\$2,694
Other	(220)	285
	2,402	2,979
Less minority interest	—	35
	\$2,402	\$2,944

16. Sales by Class of Business:

	Year ended December 28, 1974	December 31, 1973
	(thousands)	(thousands)
Pulp, paper and related products	\$224,431	\$157,461
Decorative products	78,770	60,107
	\$303,201	\$217,568

RESTATED FINANCIAL SUMMARIES

In order to provide some insight into the impact of inflation on the Company's financial position, we have prepared the following Summaries of Consolidated Financial Position and Consolidated Earnings, which reflect the changes in the general purchasing power of the dollar.

GENERAL PRICE-LEVEL RESTATED CONSOLIDATED FINANCIAL SUMMARIES

SUMMARY OF CONSOLIDATED FINANCIAL POSITION

Restated to Reflect Purchasing Power of 1974 dollar
(in thousands of dollars)

	Current Dollar Basis		Historical Dollar Basis	
	December 28, 1974	December 31, 1973	December 28, 1974	December 31, 1973
Current assets	\$136,376	106,141	135,084	91,948
Current liabilities	88,678	52,693	88,678	45,940
Working capital	47,698	53,448	46,406	46,008
Fixed assets	122,552	110,860	81,388	64,805
Other assets	126,207	108,296	80,233	58,889
	296,457	272,604	208,027	169,702
Long term debt	31,455	39,776	31,455	34,678
Deferred income taxes	9,773	8,567	9,773	7,469
Minority interest	844	28,122	573	16,695
	42,072	76,465	41,801	58,842
Shareholders' equity	\$254,385	196,139	166,226	110,860
Represented by:				
Share capital	\$162,344	134,498	106,547	80,002
Retained earnings	92,041	61,641	59,679	30,858
	\$254,385	196,139	166,226	110,860

See accompanying notes to general price-level restated consolidated financial summaries.

SUMMARY OF CONSOLIDATED EARNINGS

Restated to Reflect Purchasing Power of 1974 Dollar
(in thousands of dollars)

	Current Dollar Basis		Historical Dollar Basis	
	December 28, 1974	Fiscal Year Ended December 31, 1973	December 28, 1974	December 31, 1973
Consolidated earnings for the year before taxes on income, minority interest and extraordinary items	\$74,052	39,678	70,434	33,709
Taxes on income	33,590	17,256	32,021	15,044
Minority interest	4,582	2,466	4,368	2,077
Extraordinary items	(2,520)	(3,495)	(2,402)	(2,944)
	35,652	16,227	33,987	14,177
Net earnings (See Note 2)	\$38,400	23,451	36,447	19,532
Earnings per common share:				
Before extraordinary items	\$5.13	2.90	4.87	2.41
After extraordinary items	\$5.50	3.41	5.22	2.84
Before General Price Level Gain	\$3.40	2.36	5.22	2.84
Fully diluted earnings per common share:				
Before extraordinary items	\$5.03	2.90	4.77	2.41
After extraordinary items	\$5.38	3.41	5.11	2.84
Before General Price Level Gain	\$3.27	2.36	5.11	2.84

See accompanying notes to general price-level restated consolidated financial summaries.

NOTES TO GENERAL PRICE-LEVEL RESTATED CONSOLIDATED FINANCIAL SUMMARIES

1. The general price-level restated financial statements (columns headed "current dollar basis") have been prepared to reflect the changes in the purchasing power of the dollar which has been reduced substantially as a result of sustained inflation. They have been prepared in accordance with the Accounting Guidelines issued by the Canadian Institute of Chartered Accountants. The general price-level restated financial statements reflect the changes in the general purchasing power

of the dollar and do not purport to account for specific price changes and do not purport to reflect current values.

In connection with the computation of the general price-level restated financial statements the index used was the Canadian Gross National Expenditure Implicit Price Index. Where the current data for this Index was not available an index was interpolated by using currently available Consumer Price Index data.

2. Impact of price-level accounting on historical earnings:

	1974		1973	
	Reed Paper Ltd. and Subsidiaries	Share of Joint Venture Companies	Reed Paper Ltd. and Subsidiaries	Share of Joint Venture Companies
Net Earnings (Historical Dollar Basis)	\$26,560	(in thousands of dollars) 9,887	13,084	6,448
Price-level adjustments arising from inflation: Sales, Purchases and all Other Costs—Increase (decrease) resulting from the restatement of these items from historical dollar amounts to current dollars	(88)	410	3,698	1,439
Inventory—Additional charge based on restating the cost of inventories at the beginning and end of the year in current dollars	(6,005)	(1,200)	(3,052)	(94)
Depreciation—Additional depreciation based on the cost of fixed assets measured in current dollars	(3,944)	(1,696)	(3,711)	(1,617)
Earnings before impact of Inflation on Monetary Items	16,523	7,401	10,019	6,176
Monetary Items—Net gain in purchasing power resulting from the effects of inflation on the Company's net monetary liabilities	3,309	11,167	1,769	5,487
Net Earnings (Current Dollar Basis)	\$19,832	18,568	11,788	11,663

In a period of inflation, companies in net monetary liability positions will experience a purchasing power gain because the fixed amounts borrowed will be repaid in dollars of diminished purchasing power. The companies' net monetary liability posi-

tions result mainly from the excess of long term debt, deferred income taxes, accounts payable and other current liabilities over cash, accounts receivable and other current assets, excluding inventories.

AUDITORS' REPORT TO THE SHAREHOLDERS

On General Price-Level Restated Consolidated Financial Summaries

We have examined the historical cost consolidated financial statements of Reed Paper Ltd. and subsidiaries as at December 28, 1974, and for the year then ended and have reported thereon without qualification under date of February 28, 1975.

We have also examined the summary of consolidated financial position as at December 28, 1974 restated to reflect purchasing power of 1974 dollar and the related summary of consolidated earnings for the year then ended. These summaries, which are a restatement of the historical cost consolidated financial statements, have been subjected to such additional

auditing procedures as we considered necessary in the circumstances, and in our opinion, have been prepared in accordance with the general price-level restatement technique described in Note 1 thereto.

Leat, Marwick, Mitchell & Co.

Chartered Accountants

Toronto, Ontario
February 28, 1975

A Six Year Comparison

Sales and Earnings (thousands)	1974	1973	1972	1971	1970	1969
Sales	\$303,201	\$217,568	\$176,025	\$154,666	\$151,949	\$144,148
Depreciation and depletion	7,786	6,173	6,315	6,241	6,101	5,670
Interest on long term debt	2,504	2,650	2,831	2,882	3,023	2,793
Income taxes	32,021	15,044	5,237	3,451	4,010	4,572
Earnings (loss) before extraordinary items	34,045	16,588	4,133	2,362	(199)	1,383
Net earnings	36,447	19,532	5,127	3,478	735	2,603

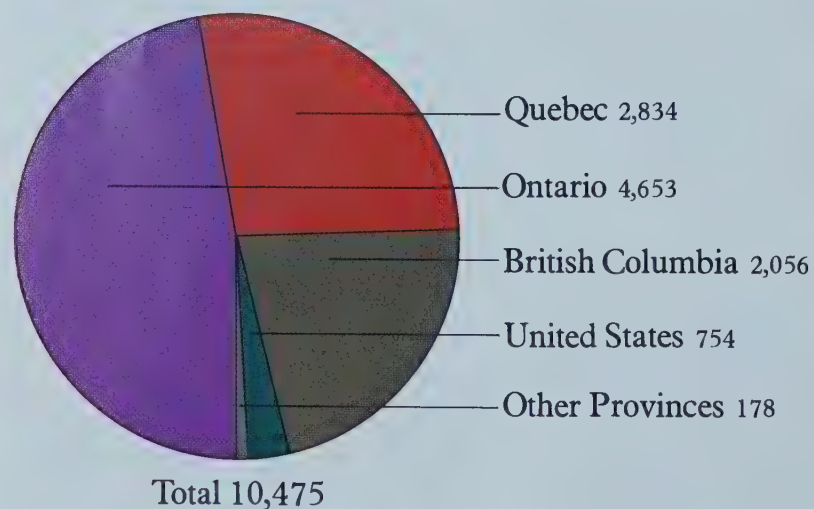
Financial Position (thousands)

Working capital	46,406	46,008	41,475	36,020	32,475	34,400
Fixed assets	207,891	186,722	177,727	174,705	170,861	164,500
Accumulated depreciation and depletion	126,503	121,917	117,296	111,224	103,900	98,492
Capital expenditures	23,475	11,507	3,169	4,895	6,979	9,861
Long term debt	31,455	34,678	40,030	40,188	42,184	46,780
Shareholders' equity	166,226	110,860	98,212	93,593	90,442	90,165

Per Common Share

Earnings before extraordinary items	4.87	2.41	.60	.34	(.03)	.20
Net earnings	5.22	2.84	.76	.51	.11	.38
Dividends	1.03	—	—	—	—	—
Equity	20.32	16.13	14.29	13.62	13.17	13.12

Employees of Reed Paper Ltd. and Associated Companies.



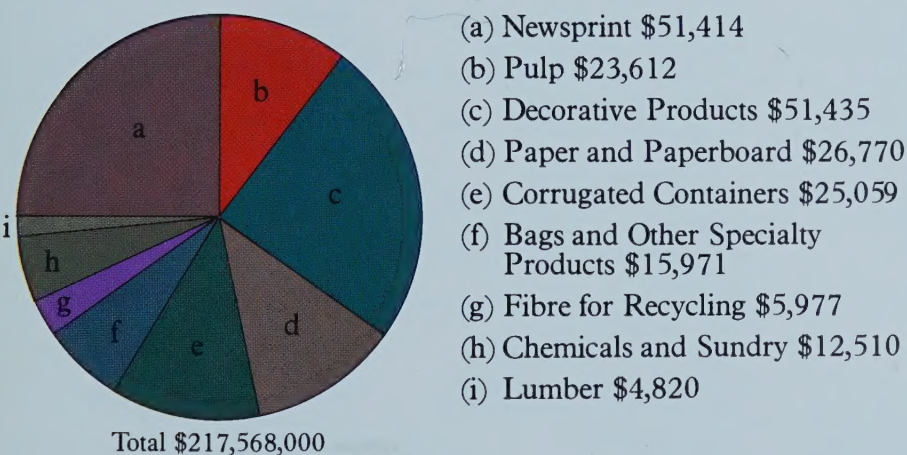
This chart includes 1,740 people who work for the joint venture companies in British Columbia.

Production Highlights

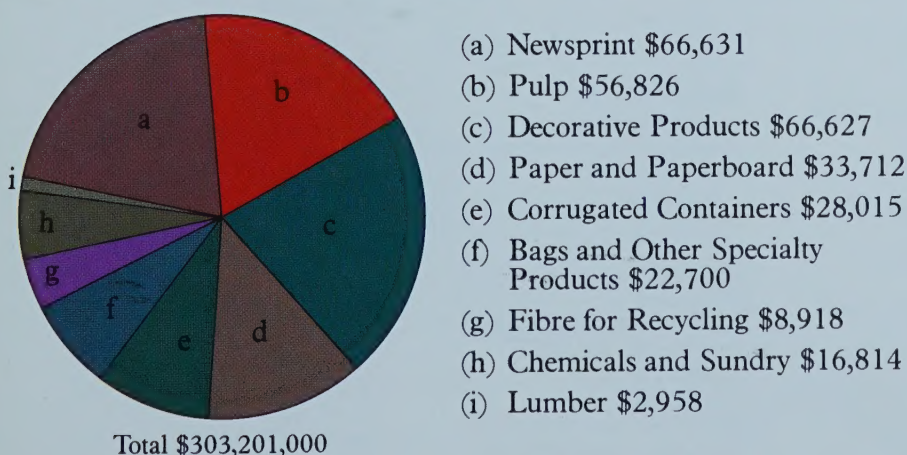
	1974	1973	% change
Newsprint (tons)	330,927	337,910	(2.1)
Sulphite pulp (tons)	62,446	5,222*	1095.8
Paperboard (tons)	31,349	29,454	6.4
Bleached and unbleached kraft pulp (tons)	129,121	139,983	(7.8)
Kraft and fine papers (tons)	69,344	71,059	(2.4)
Liner and corrugating medium (tons)	25,370	24,502	3.5
Flexible packaging (tons)	25,212	21,170	19.1
Corrugated (tons)	68,120	73,710	(7.6)
Chloralkalis, turpentine (tons)	30,423	30,368	0.2
Lignosulphonates (tons)	46,360	39,879	16.3
Dominion Colour (tons)	7,576	6,798	(11.5)
Lumber—board feet (000's)	29,103	33,551	(13.3)
Wallcoverings (rolls)	26,622,000	22,345,000	19.1
Paint (gallons)	1,874,000	1,721,000	8.9

*The sulphite pulpmill was closed for substantially all of 1973 as the result of a fibre shortage caused by a manpower shortage in the woodlands of Eastern Canada.

1973 Sales by Product (thousands of dollars)



1974 Sales by Product (thousands of dollars)



COMPANY LOCATIONS

QUEBEC

Forestville

Woodlands operations.

Hull

Bag and folding box warehouse and sales office.

Montreal area

Pulp and paper sales office. Pigment warehouse and sales office.

Wallcovering and fabric sales office and showroom.

Wallcovering and paint retail outlet and warehouse.

Five wallcovering and paint retail outlets.

Bag and folding box plant.

Corrugated box plant.

Recycling secondary fibre, warehouse and plant.

Quebec City

Newsprint, sulphite pulp and paperboard mill.

Lignosulphonate plant.

Pulp and paper sales office.

Bag and folding box distribution centre and sales office.

Recycling secondary fibre, warehouse and plant.

Research labs and engineering offices.

ONTARIO

Burlington

Building products manufacturing facility.

Lumber and building products distribution centre.

Cambridge

Lumber and building products distribution centre.

Dryden

Kraft pulp and specialty paper mill.

Manufacturing facilities for chlorine caustic soda, sodium chlorate, tall oil and solvent grade turpentine.

Engineering Offices.

Kitchener

Wallcovering and paint retail outlet.

Contractors of farm, industrial building and silos.

London

Wallcovering and paint retail outlet.

Bags and folding box sales office and distribution centre.

Maple

Lumber and building products offices.

Building products manufacturing facility.

Lumber and building products distribution centre.

Ottawa

Wallcovering and paint retail outlet.

Custom drapery retail outlet.

Lumber and building products distribution centre.

Red Lake Road

Woodlands and sawmill operations.

Ear Falls

Woodlands operations.

Thornhill

Building products manufacturing facility.

Toronto area

Head office.

Pulp and paper sales office.

Box plant, distribution centre for stationery, packaging and related items and packaging sales office.

Two pigment manufacturing plants.

Wallcoverings and fabrics showroom and warehouse.

Wallcovering and paint showroom and warehouse.

Four wallcovering and paint retail outlets.

Wallcovering plant.

Furniture showrooms.

Three furniture manufacturing plants.

Custom drapery plant.

Four custom drapery retail outlets.

Two corrugated container plants.

Recycling secondary fibre, plant, warehouse and sales offices.

Engineering offices.

Lumber and building products offices.

Three lumber and building products distribution centres.

Building products manufacturing facility.

Wallcovering distribution centre.

Wabigoon Township

Woodlands operations.

Woodbridge

Lumber and building products distribution centre.

MANITOBA

Winnipeg

Pulp and paper sales office.

Wallcovering and paint retail outlet and distribution centre.

Bag plant and distribution centre.

SASKATCHEWAN

Regina

Wallcovering and paint retail outlet.

Saskatoon

Wallcovering and paint retail outlet.

ALBERTA

Calgary

Two wallcovering and paint retail outlets.

Wallcovering warehouse.

Lethbridge

Wallcovering and paint retail outlet.

Edmonton

Two wallcovering and paint retail outlets.

Wallcovering and paint warehouse.

Building products manufacturing facility.

Lumber and building products distribution centre.

Medicine Hat

Wallcovering and paint retail outlet.

BRITISH COLUMBIA

Fort St. James

Dimension lumber, studs, veneer sawmill — joint venture.

Isle Pierre

Dimension lumber, studs, veneer sawmill — joint venture.

Kamloops

Wallcovering and paint retail outlet.

Kelowna

Wallcovering and paint retail outlet.

Prince George

Wallcovering and paint distribution centre and retail outlet.

Bleached and unbleached kraft pulp and sack kraft paper mill — joint venture.

Bleached and unbleached kraft pulp mill — joint venture.

Dimension lumber, studs, veneer sawmill — joint venture.

Sodium chlorate plant — joint venture.

Vancouver Area

Paint manufacturing facility, retail outlet and showroom.

Eight wallcovering and paint retail outlets.

Wallcovering and fabrics showroom and retail outlet.

Three lumber and building products distribution centres.

Two building products manufacturing facilities.

Vernon

Wallcovering and paint retail outlet.

Victoria

Wallcovering and paint retail outlet.

CALIFORNIA

Los Angeles

Wallcovering warehouse and sales offices.

Oakland

Two wallcovering warehouses and sales offices.

COLORADO

Denver

Wallcovering showroom and warehouse.

FLORIDA

Miami

Wallcovering showroom. Wallcovering warehouse.

GEORGIA

Atlanta

Wallcovering showroom.

Wallcovering distribution centre.

ILLINOIS

Chicago

Pulp and paper sales office.

Wallcovering warehouse and sales office.

Secondary fibre, sales office.

Wallcovering warehouse.

KANSAS

Kansas City

Wallcovering showroom and warehouse.

MICHIGAN

Detroit

Wallcovering showroom and warehouse.

MISSOURI

St. Louis

Wallcovering showroom.

Wallcovering warehouse.

NEW JERSEY

Eatontown

Wallcovering warehouse and distribution centre.

Wallcovering plant and offices.

Trenton

Wallcovering warehouse.

NEW YORK

Buffalo

Wallcovering plant and offices.

Wallcovering plant and warehouse.

Wallcovering warehouse and distribution centre and offices.

Warehouse and plant, recycled fibre.

New York City

Wallcovering warehouse and sales office.

Wallcovering and prints, warehouse and showroom.

Sales office, recycled fibre.

NORTH CAROLINA

Charlotte

Wallcovering showroom and warehouse.

OHIO

Cleveland

Wallcovering warehouse.

OKLAHOMA

Oklahoma City

Wallcovering showroom.

OREGON

Portland

Wallcovering warehouse and sales office.

TENNESSEE

Memphis

Wallcovering showroom.

TEXAS

Dallas

Wallcovering showroom and warehouse.

Houston

Wallcovering showroom and warehouse.

WASHINGTON, D.C.

Wallcovering showroom.

Wallcovering warehouse.



